

ANNUAL DISCLOSURE INFORMATION

Pertaining to

City of Portland, Oregon



\$15,400,000

Gas Tax Revenue Bonds, 2011 Series A

Dated November 22, 2011

December 31, 2019

MATURITY SCHEDULES:

**\$15,400,000* Gas Tax Revenue Bonds,
2011 Series A – Dated November 22, 2011**

Due February 1	Principal Amount	Interest Rate	CUSIP 736694
2020	\$1,520,000	5.00%	CM0
2021	1,595,000	3.00%	CN8
2022	1,640,000	3.00%	CP3
2023	1,690,000	3.00%	CQ1
	<u>\$6,445,000</u>		

*Original par amount.

CONTENTS

PORTLAND BUREAU OF TRANSPORTATION FINANCIAL AND OPERATING INFORMATION	1
OVERVIEW	1
FUND ACCOUNTING SYSTEM	1
REVIEW OF THE CITY'S GAS TAX REVENUES	2
HISTORICAL RESULTS	4
GAS TAX RESERVE	5
CITY FINANCIAL AND OPERATING INFORMATION.....	5
BASIS OF ACCOUNTING.....	6
FISCAL YEAR.....	6
AUDITS.....	6
FINANCIAL REPORTING AND BUDGETING.....	6
INSURANCE	6
CYBERSECURITY	7
PENSION PLANS: OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM.....	8
PENSION PLANS: FIRE AND POLICE DISABILITY AND RETIREMENT PLAN	17
OTHER POST-EMPLOYMENT RETIREMENT BENEFITS (“OPEB”)	23
LITIGATION	25
APPENDIX: EXCERPTS FROM AUDITED FINANCIAL STATEMENTS	

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Information Updated as of December 31, 2019

PORTLAND BUREAU OF TRANSPORTATION FINANCIAL AND OPERATING INFORMATION

OVERVIEW

This section provides financial and operating information specifically related to the gas tax revenue bonds. Financial and operating information for the City as a whole is found below under, “CITY FINANCIAL AND OPERATING INFORMATION.”

FUND ACCOUNTING SYSTEM

The Portland Bureau of Transportation (“PBOT”) financial reporting system is organized into three separate funds. A description of PBOT’s funds and their respective financial reporting purposes are below.

Transportation Operating Fund

All expenditures are made from this fund for operation, maintenance and acquisition of PBOT capital assets. All revenues except interest earned on cash balances in the Reserve Fund are receipted in this fund. Major external revenues are gas taxes, parking fees (meter and citation), intergovernmental revenues received via agreements with state and local governments and cost recovery revenues (service charges, licenses and permits). Internal revenues are from inter-fund cash transfers and inter-fund service reimbursements. All grant expenditures and revenues are now recorded in the City’s Grants Fund.

Transportation Reserve Fund

This fund has two components: a countercyclical reserve and an emergency reserve. It is PBOT’s internal policy to maintain the countercyclical reserve at a level equal to five percent of PBOT’s discretionary revenues. This reserve is available to maintain current service level programs or to buffer the impact of major revenue interruptions, such as those caused by an economic recession. The emergency reserve, also set by internal policy, equals five percent of PBOT’s discretionary Adopted Budget appropriations, excluding operating contingency. This reserve is available to fund major, one-time unexpected requirements, such as those associated with a natural disaster. The reserve has been funded below the policy level since FY 1998-99, however, PBOT has increased the Transportation Reserve Fund balance beginning in FY 2007-08. As of fiscal year ended June 30, 2019, the Transportation Reserve Fund balance is \$7.6 million; or about 56 percent of PBOT’s internal policy.

Gas Tax Bond Redemption Fund

This fund is used to account for payment of principal and interest on bonds issued for certain street improvements and other projects funded with Gas Tax Revenue Bonds.

REVIEW OF THE CITY’S GAS TAX REVENUES

Annual Gas Tax Revenues received by PBOT currently comprise three elements: the City's share of the State of Oregon (the “State”) gas tax receipts that are distributed by State statute on a formula basis to incorporated cities; a share of the Multnomah County (the County”) allocation of State gas tax receipts distributed to counties; and a share of the County's \$0.03 per gallon business license fee on fuel distributors. The latter two sources are received in accordance with the terms of the Gas Tax Contract. (See “Gas Tax Contract with the County” below.”)

On May 17, 2016, Portland voters passed Measure 26-173. The measure creates a program dedicated to street repair and traffic safety, known as the Fixing Our Streets Program, through a temporary, ten-cents per gallon tax on motor vehicle fuels in Portland for vehicles not subject to a weight-mile tax. This tax on motor vehicle fuels expires in four years and is not pledged to the repayment of bonds secured by the Gas Tax Revenues. The revenues are dedicated to projects and activities identified for the Fixing Our Streets Program and cannot be used for any other purpose. A voter measure for the renewal of the Fixing Our Streets Program is anticipated to be on the May 2020 ballot. The renewal, if approved by voters, also will not be pledged for the repayment of the bonds secured by the Gas Tax Revenues.

State Gas Tax Receipts

State gas tax receipts, authorized by ORS 319.020, 319.530, 803.090, 803.420, 818.225, 825.476, 825.480, 825.570 and 825.645 and distributed as governed by ORS 366.739 to 366.820, have three major components: motor fuels tax, vehicle registration fees, and a weight-mile tax. The following table shows the history of these rates and fees for the past five years.

Table 1
CITY OF PORTLAND, OREGON
History of Representative State Gas Tax Rates and Fees⁽¹⁾

TAX OR FEE	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19
Motor fuels tax					
Cents per gallon	\$0.30	\$0.30	\$0.30	\$0.30	\$0.30
Annual general purpose vehicle registration fee	\$43.00	\$43.00	\$43.00	\$43.00	\$43.00
Weight-mile tax					
78,001 to 80,000 lbs. weight group/rate per mile	\$.01638	\$.01638	\$.01638	\$.02048	\$.02048

(1) Motor Fuels Tax, Vehicle Registration Fees and Weight-Mile Tax increased to current rates on January 1, 2018.
Source: City of Portland, Portland Bureau of Transportation

The motor fuels tax is currently collected at the rate of \$0.34 per gallon. The weight-mile tax is levied on trucks and is based on cost responsibility studies to ensure equitable taxation of all users of the transportation system. The tax is assessed on rates per mile by weight groups. For trucks weighing more than 80,000 pounds, the number of axles per vehicle become part of the tax table. Annual vehicle registration fees for general purpose vehicles (i.e. automobiles) are \$56 paid biennially. There are additional registration fees for miscellaneous motorized vehicles and heavy vehicles. For the heavy vehicles (i.e., trucks) the fee is based on the weight group of the vehicles. Revenues are collected by the State with administrative and collection costs netted out under the authority of ORS 825.326 and 802.110. Gas tax receipts, distributed monthly, are split between the State, the counties, and the incorporated cities. Counties generally receive 24.38 percent of net gas tax receipts, which is distributed on the basis of each county’s proportionate share of statewide vehicle registrations. Incorporated cities receive 15.57 percent of net gas tax receipts, distributed on the basis of each city’s proportionate share of statewide population in incorporated cities.

In 2001, the legislature passed the Oregon Transportation Investment Act (“OTIA”). This act increased fees on vehicle, truck and trailer title transfers, ORS 803.420, and authorized \$400 million of bonds backed by these revenues. Revenues collected beyond the amount necessary to service the debt will be distributed between the State, counties and cities based on a formula allocating 50 percent to the State, 30 percent to counties, and 20 percent to cities.

In 2003, the legislature passed the Oregon Transportation Investment Act III (“OTIA III”). This bill increased various State vehicle fees, most notably, vehicle registration and titling fees, as well as weight-mile taxes on trucks. A section of the legislation calls for the County to dedicate a majority of its share of OTIA III revenue for the Willamette River bridges. (See “— Gas Tax Contract

with the County” below.) The legislation went into effect in January 2004. Revenues collected beyond the amount necessary to service the debt are to be distributed between the State, counties and cities based on a formula allocating 50 percent to the State, 30 percent to counties, and 20 percent to cities.

In 2009, the legislature passed the Jobs and Transportation Act (“JTA”). The JTA increased the fees and taxes collected by the State. The implementation schedule varied by fee and tax. Generally, increases to Vehicle Title and Registration fees were effective September 28, 2009. The increase to registration fees for heavy commercial vehicles (over 8,001 pounds gross vehicle weight) went into effect January 1, 2010. Increases to Truck Taxes (weight-mile tax) and Fees became effective on October 1, 2010. Gasoline and Diesel Tax increases became effective on January 1, 2011. Revenues collected beyond the amount necessary to service the studies and programs identified in the JTA are distributed between the State, counties and cities based on a formula allocating 50 percent to the State, 30 percent to counties, and 20 percent to cities.

In 2017, the Oregon State Legislature passed House Bill (HB) 2017, which among transportation-related provisions, is expected to increase the amount of revenues the City receives from State Gas Tax Receipts. Revenue from this legislation began in January 2018. In FY 2018-19, the first full fiscal year of implementation, the City received approximately \$16.5 million of additional revenues.

Under HB 2017, fees increase every two years beginning January 1, 2018, and ending January 1, 2024. With the implementation of the January 2018 increase, the motor fuels tax is now \$0.34 per gallon; the annual general purpose vehicle registration fee is \$56.00; and the 78,001 to 80,000 lbs. weight group/rate per mile (the weight-mile tax) is \$0.02048. Assuming full implementation of the remaining scheduled increases, in January 2024 the motor fuels tax will be \$0.40 per gallon; the annual general purpose vehicle registration fee will be \$63.00; and the 78,001 to 80,000 lbs. weight group/rate per mile (the weight-mile tax) will be \$0.02512.

The Oregon Constitution, Article IX, Section 3a, limits the use of gas tax revenues to “construction, improvement, repair, maintenance, operation and use of public highways, roads, streets, and roadside rest areas.” In addition, ORS 366.514 mandates that one percent of distributed gas tax revenues must be spent on alternative transportation modes.

Local Gas Tax Receipts

The County levies a separate tax of \$0.03 per gallon of fuel sold at commercial fueling stations within the County. The tax effectively functions as a business license fee on gasoline distributors. It is collected by the State and is distributed to the County monthly. These revenues are part of a distribution formula contained in the Gas Tax Contract, as described in the next section.

Gas Tax Contract with the County

In an effort to avoid a duplication of road maintenance services, the County entered into the Gas Tax Contract with the City in August 1984. The Gas Tax Contract is in full force until both sides mutually agree to its termination. The agreement provides for the orderly transfer of roads and personnel from the County to the City, funding for a capital set-aside and operation and maintenance of the Willamette River bridges owned by the County, and a formula for allocating each jurisdiction's gas tax revenues that are received from the State.

In general, the formula first pools the gas tax revenues of the City (the City's share of State gas tax revenues) and the County (the County's share of the State gas tax revenues and the County's \$0.03 per-gallon fee). To comply with OTIA III legislation, 51 percent of the County's share of OTIA III revenues (\$1.62 million in FY 2018-19) are withheld by the County for the care of the Willamette River bridges and are not pooled. After pooling these revenues, \$3.16 million, adjusted annually by an inflation rate based on CPI-W, is credited to the County for operation and maintenance of the Willamette River bridges. Another \$1.06 million is credited to the County for a capital set-aside account for the Willamette River bridges. The remaining dollars in the pool are then allocated based on the percentage share of center-line road miles maintained by the County and the City. Currently, the County has 425.17 road miles (20 percent of the total) and the City has 1,700.83 road miles (80 percent of the total).

Although the Gas Tax Contract calls for pooling the various revenues, the pooling does not involve actual commingling of funds. State and County gas tax revenues are distributed directly to the City and the County by the State. Each quarter the amount due to each party under the agreement is calculated and the party having received more than their share of the revenues under the Gas Tax Contract then provides funds to the other party. As reflected in the historical tables, the City has always received all of the Gas Tax Revenues allocated to it from the State and has received a portion of the State's allocation to the County and the local gas tax receipts imposed by the County. The County has provided funds to the City under the Gas Tax Contract since the agreement's inception.

HISTORICAL RESULTS

Gas Tax Revenues

The following table shows PBOT Gas Tax Revenues and debt service coverage for the past five years.

Table 2
CITY OF PORTLAND, OREGON
Historical Gas Tax Revenues and Debt Service Coverage

	<u>FY 2014-15</u>	<u>FY 2015-16</u>	<u>FY 2016-17</u>	<u>FY 2017-18</u>	<u>FY 2018-19</u>
Transfer to City: State Highway Fund Monies Received by the County	\$ 21,815,489	\$ 22,657,656	\$ 22,074,876	\$ 24,883,502	\$ 28,669,245
Transfer to City: Allocation of \$.03/ Gallon County License Tax	3,831,561	4,063,103	4,918,244	3,954,593	3,910,406
Subtotal – Revenues Received from County	<u>25,647,050</u>	<u>26,720,759</u>	<u>26,993,120</u>	<u>28,838,095</u>	<u>32,579,651</u>
Allocation of State Highway Fund Monies (1)	<u>34,510,686</u>	<u>35,991,335</u>	<u>37,169,549</u>	<u>40,916,050</u>	<u>47,225,691</u>
Total Gas Tax Revenues	<u>\$ 60,157,736</u>	<u>\$ 62,712,094</u>	<u>\$ 64,162,668</u>	<u>\$ 69,754,145</u>	<u>\$ 79,805,342</u>
Gas Tax Bond Debt Service					
Senior Lien Bonds (2)	\$ 2,256,643	\$ 2,254,963	\$ 1,740,000	\$ 1,741,600	\$ 1,741,000
Subordinate Obligations (3)	<u>226,762</u>	<u>216,688</u>	<u>226,730</u>	<u>236,501</u>	<u>0</u>
Total Debt Service	<u>\$ 2,483,405</u>	<u>\$ 2,471,650</u>	<u>\$ 1,966,730</u>	<u>\$ 1,978,101</u>	<u>\$ 1,741,000</u>
Debt Service Coverage (x)					
Senior Lien Bonds	26.7	27.8	36.9	40.1	45.8
All Gas Tax Bonds	24.2	25.4	32.6	35.3	45.8

(1) Includes Motor Fuel Taxes, Weight Mile Taxes, Vehicle Registration Fees, and Other Miscellaneous Revenues imposed and collected by the State.

(2) Includes debt service on the Gas Tax Revenue Refunding Bonds, 2005 Series A, which were repaid in FY 2015-16 and the Gas Tax Revenue Bonds, 2011 Series A.

(3) The City refunded the senior lien Gas Tax Revenue Bonds, 1998 Series A with proceeds from a loan dated as of August 6, 2013, which has a subordinate lien on the Gas Tax Revenues. The subordinate loan has fully matured.

Source: City of Portland, Oregon, Portland Bureau of Transportation

Financial Results for Transportation Operating Fund

Actual results of the Transportation Operating Fund resources and requirements are shown in the following table. This table reflects financial results for the past five years as reported in the City's Comprehensive Annual Financial Report. Strong economic growth has contributed to higher collections of licenses and permit revenues, service charges and fees, and revenue sharing revenues, which has contributed to the growth in Ending Fund Balance. Additionally, increases in ending fund balance are attributable in part to increased SDC revenues collected, but not yet spent on SDC eligible projects.

Table 3
CITY OF PORTLAND, OREGON
Audited Historical Resources and Requirements
of the Transportation Operating Fund (Budgetary Basis)
(for the fiscal year ended June 30)

	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19
RESOURCES					
Taxes	\$0	\$0	\$9,787,463	\$20,886,761	\$21,280,528
Licenses and permits	6,848,288	8,375,150	11,491,538	20,001,016	17,580,851
Intergovernmental revenues:					
State cost sharing ⁽¹⁾	643,097	1,201,347	466,708	703,582	923,052
Federal cost sharing	1,186	--	--	--	--
Grant revenue	--	--	--	--	--
State revenue sharing	34,510,686	35,991,335	37,169,549	40,976,211	46,791,902
Local government sources:					
Local revenue sharing	26,387,299	27,366,525	27,568,276	30,049,791	34,035,603
Multnomah County cost sharing	22,360	1,988,646	41,545	83,414	71,000
Local cost sharing	3,961,094	8,139,220	7,263,852	8,272,755	9,336,192
LID payments unbonded					
Service charges and fees	54,172,560	62,463,665	83,672,293	84,483,053	85,201,977
Billings for inter-fund services	29,320,265	27,670,348	26,437,990	26,518,705	30,245,877
Miscellaneous	6,006,172	6,179,717	7,365,089	7,672,253	7,433,433
Other financing sources ⁽²⁾	41,553,284	37,614,256	43,461,314	33,093,572	40,536,061
Beginning fund balance available for appropriation	60,783,863	67,731,639	109,773,443	165,202,119	216,671,503
Total resources	\$264,210,154	\$284,721,848	\$364,499,060	\$437,943,232	\$510,107,979
REQUIREMENTS					
Personal services	\$67,743,189	\$73,615,530	\$79,776,297	\$87,240,285	\$101,608,764
Materials and services	89,085,676	69,569,391	82,895,231	87,675,036	94,211,727
Capital outlay ⁽¹⁾	10,979,144	7,788,382	13,179,795	10,771,758	20,633,892
Overhead charges--General Fund	5,874,071	5,483,293	6,649,753	6,725,943	7,275,609
Debt service and related costs:					
Principal	9,366,992	9,575,663	8,239,494	9,378,918	9,999,993
Interest	4,613,333	4,631,778	4,788,008	5,891,322	5,932,287
Debt issuance costs	37,585	15,214	270,758	--	--
Other financing uses ⁽³⁾	8,778,585	4,269,154	3,497,605	13,588,467	11,641,407
Ending fund balance	67,731,639	109,773,443	165,202,119	216,671,503	258,804,300
Total requirements	\$264,210,214	\$284,721,848	\$364,499,060	\$437,943,232	\$510,107,979

(1) Grant activity is reported in the City's Grants Fund. Transportation related grant activity recorded in the Grants Fund was about \$15 million in FY 2014-15, \$10 million in FY 2015-16, \$23 million in FY 2016-17, \$15 million in FY 2017-18, and \$16 million in FY 2018-19.

(2) Amounts include transfers from other funds, bond and notes issued for City transportation projects, and borrowings to fund PBOT's contribution to regional projects.

(3) Amounts include transfers to the debt service fund for the payment of debt service, transfers for the payment of a portion of PBOT's share of the City's pension bonds, and transfers for the repayment of internal loans.

Source: City of Portland, Portland Bureau of Transportation

GAS TAX RESERVE

The Gas Tax Reserve for the 2011 Series A Bonds is funded with cash. As of the date of this Annual Disclosure document, the amount credited to the Gas Tax Reserve Fund for this issue is \$1,723,027.

CITY FINANCIAL AND OPERATING INFORMATION

BASIS OF ACCOUNTING

The governmental fund types are reported using the current financial resources measurement focus and the modified accrual basis of accounting. The economic resources measurement focus and the accrual basis of accounting is used for all proprietary fund and fiduciary fund financial statements. The City's accounting practices conform to Generally Accepted Accounting Principles (GAAP) 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 2018-19.

A complete copy of the City's FY 2018-19 audit is available on the EMMA system for municipal securities disclosure established by the MSRB and accessible at <http://emma.msrb.org>.

Excerpts of the City's audited financial statements for the Transportation Operating Fund on a GAAP basis are found in the Appendix.

FINANCIAL REPORTING AND BUDGETING

Financial Reporting

The City has been awarded the Government Finance Officers Association ("GFOA") Certificate of Achievement for Excellence in Financial Reporting every year since 1982. According to the 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 financial report whose content conforms to program requirements and satisfies both generally accepted accounting principles and applicable legal requirements.

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 City 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, in January 2014, the City Council approved a five-year contract with the Citizens' Utility Board of Oregon (the "CUB"), an independent consumer advocacy nonprofit organization, to provide input regarding the City's water and sewer bureaus on behalf of residential customers. The City Council renewed the partnership agreement with the CUB in 2019. The CUB provides recommendations to the City Council on capital spending, rates, and customer service issues. On June 10, 2015, the City Council approved creation of the Portland Utility Board, a new citizen oversight panel that replaced the Portland Utility Review Board and budget advisory committees for the Portland Water Bureau and Bureau of Environmental Services. The Portland Utility Board, which is staffed by a dedicated financial analyst, advises the City Council regarding operations of the two utility bureaus, including development of bureau budgets and financial plans, capital spending, and rate setting.

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 Multnomah County 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 City Council no later than June 30. All committee meetings and budget hearings are open to the public.

INSURANCE

The City is exposed to various risks of loss related to theft, damage and destruction of assets, tort claims (general and fleet liability), injuries to employees, acts of terrorism, and natural disasters. The City is self-insured for workers’ compensation, fleet and general liability claims and certain employees’ medical coverage in internal service funds.

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 position). 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 Division and independent actuarial studies. Liabilities are based on an estimated ultimate cost of settling claims, including effects of inflation and other societal and economic factors. The 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 FY 2018-19, the expected rate of return used was 2.1 percent. For FY 2019-20, and subsequent years, the expected rate of return used was 2.3 percent and 2.35 percent respectively. The Bureau of Human Resources and the employee benefits consultant determines relevant employees' medical coverage estimates.

The City provides insurance coverage deemed as adequate, appropriate, and actuarially sound. It meets all the City's anticipated settlements, obligations and outstanding liabilities. An excess liability coverage insurance policy covers individual claims in excess of \$1 million to policy limits, police law enforcement claims in excess of \$2.5 million for claims occurring after November 12, 2013, to policy limits and 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. The City's limits of coverage on the excess liability policy is \$10 million per claim above the self-insurance retention for covered torts. The City does not have any claims reserved above the current self-insurance retention and excess layer. In the City’s last three excess renewals, there have been no material changes in retention, coverage or conditions. Furthermore, current levels of accrued claims and case reserve estimates are viewed as reasonable provisions for expected future losses.

Per Oregon Revised Statute (“ORS”) 30.272 limitations on liability of public bodies for personal injury to any single claimant for causes of action arising on or after July 1, 2019, and before July 1, 2020, limitations are \$749,000 for single claimant and \$1.498 million for multiple claimants.

Per ORS 30.273 limitations on liability of public bodies for property damage arising on or after July 1, 2019 and before July 1, 2020, limitations are \$122,900 for single claimant and \$614,300 for multiple claimants.

Liabilities are reported in the applicable fund when it is probable that a loss has occurred and the amount of loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated for effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors.

The estimate of claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether any are allocated to specific claims. Estimated recoveries, from salvage or subrogation for example, are another component of the claims liability estimate. Changes in the balances of claims liabilities during the past two years are as follows:

	FY 2018-19	FY 2017-18
Balance, beginning of fiscal year	\$31,721,400	\$28,068,818
Incurred claims and adjustments	66,624,554	64,839,071
Claim cash payments	(65,925,043)	(61,186,489)
Unpaid claims, end of fiscal year	<u>\$32,420,911</u>	<u>\$31,721,400</u>

CYBERSECURITY

The City, like other large public and private entities, relies on a large and complex technology environment to conduct its operations, and consequently faces the threat of cybersecurity incidents. Cybersecurity incidents could result from unintentional events, or from deliberate attacks by unauthorized entities or individuals attempting to gain access to the City's information technology systems to misappropriate assets or information or to cause operational disruption and damage.

To reduce and mitigate the risk of business operations impact and/or damage from cybersecurity incidents, the City has invested in multiple forms of cybersecurity and operational safeguards, including adopting the National Institute of Standards and Technology Cybersecurity Framework to support, maintain, and prioritize securing critical infrastructure and data systems, manage risk, and improve cybersecurity event detection and remediation. Under the leadership of the City's Chief Information Security Officer, the City's Bureau of Technology Services has established a cybersecurity team which is responsible for identifying, evaluating, responding, and reporting on information security risks in a manner that meets compliance and regulatory requirements, and which aligns with and supports the cybersecurity risk posture of the City. Additionally, all information security related standards, policies and administrative rules are reviewed annually.

As a recipient and provider of personal and confidential information, the City has been the subject of cybersecurity incidents that have resulted in, or could have resulted in, adverse consequences to the City's confidential information and technologies and that required a response action to mitigate potential consequences. For example, during 2018, the City was subject to several phishing attacks against the City's Microsoft-hosted email system which briefly disrupted some email services and exposed several employee e-mail accounts to unauthorized entities or individuals. The scope of impact was limited to a small number of accounts and the attacks were quickly contained and mitigated. The City has no evidence that any City or individual's confidential information was exfiltrated, but there is a possibility of exfiltration. The City has thoroughly investigated these incidents and where appropriate, has offered the potentially impacted individuals a year of free credit monitoring. Since the occurrence of those attacks, the City has implemented additional information security controls to reduce the likelihood of success of future phishing attacks.

The City's cybersecurity and operational safeguards are periodically internally tested and assessed by external auditors, however the City cannot assure that these measures will prevent all potential cybersecurity attacks, and accompanying disruptions and costs. To offset some of the potential financial costs and risks associated with a breach, the City's Risk Management Division obtained a cyber-liability insurance policy. The policy offers liability coverage, as well as coverage for certain business expenses related to cybersecurity incidents, such as business interruption expenses and costs to recover, restore or replace lost data. The policy does not cover "social engineering losses," such as losses resulting from bad actors manipulating people into performing actions such as wiring finances to banks. These claims are covered separately under the City's Crime Policy.

LABOR RELATIONS

The City employs approximately 6,637 full-time equivalent personnel. Of these, 4,554 are represented by collective bargaining units.

The City is currently negotiating successor agreements with the Portland Fire Fighters Association ("PFFA") and the Bureau of Emergency Communications ("BOEC"). Each of the current agreements expired on June 30, 2019. Neither union is permitted to strike, but each has the option of taking contract negotiations to binding arbitration. The PFFA declared a bargaining impasse on November 1, 2019, and filed a declaration of impasse with the State Employment Relations Board as negotiations had occurred for at least 150 days, been mediated for at least 15 days, and no agreement had been reached. The City is scheduling dates for arbitration, which currently are expected to occur beginning in April 2020. Additionally, negotiations between the City and BOEC have occurred for at least 150 days and the union has now requested to move to mediation. The first session occurred on December 17, 2019, and a second session has been scheduled for March 2020.

Table 4
CITY OF PORTLAND, OREGON
Bargaining Units and Contract Status

Collective Bargaining Unit	Number of Employees⁽¹⁾	Contracts & MOUs Expire
District Council of Trade Unions (DCTU) ⁽²⁾	1,173	June 30, 2020
Portland Police Association	830	June 30, 2020
Professional and Technical Employees Local 17	836	June 30, 2021
Portland Fire Fighters Association	653	June 30, 2019 ⁽³⁾
Laborers' International Union of North America Local 483 - Portland City Laborers	630	June 30, 2021
Laborers' International Union of North America Local 483 - Parks and Recreation	204	June 30, 2021
Bureau of Emergency Communications - PPA	108	June 30, 2019 ⁽³⁾
Laborers' International Union of North America Local 483 - Seasonal Maintenance Workers	91	June 30, 2022
Portland Police Commanding Officers Association (PPCOA)	29	June 30, 2022

(1) Number of employees refers to number of filled full-time equivalent positions.

(2) DCTU includes DCTU IBEW Local 48; DCTU- Auto Mechanics, District Lodge 24; DCTU-Operating Engineers Local 701; DCTU- Painters and Allied Trades, District Council 5; and DCTU Plumbers Local 290.

(3) Currently in negotiation.

Source: *City of Portland*

PENSION PLANS: OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM

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 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-paid contributions (currently, for the City, six percent of salaries and nine percent for police and fire employees) fund these pension programs. See “—Employer Contribution Rates and Amounts” and “—PENSION PLANS: FIRE AND POLICE DISABILITY AND RETIREMENT FUND” 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 a normal retirement age of 58 and, effective January 1, 2018, an assumed earnings rate guarantee of 7.20 percent. 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, 2019, the balance of this reserve was \$448.8 million. As of June 30, 2019, there were 18,971 active plan members, 128,177 retired plan members or their beneficiaries currently receiving benefits, and 7,655 inactive plan members entitled to but not yet receiving benefits, and 3,410 inactive plan members eligible for the refund value of their account only, for a total of 158,213 Tier One 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, 2019, there were 32,441 active plan members, 15,567 retired plan members or their beneficiaries currently receiving benefits, and 5,778 inactive plan members entitled

to but not yet receiving benefits, and 9,788 inactive plan members eligible for the refund value of their account only, for a total of 63,574 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, 2019, there were 124,915 active plan members, 5,642 retired plan members or their beneficiaries currently receiving benefits, 5,868 inactive plan members entitled to but not yet receiving benefits, and 16,287 inactive plan members not eligible for refund or retirement, for a total of 152,712 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 current PERS actuary is Milliman, Inc. (“Milliman”). 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”). For a description of RHIA, see “OTHER 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. The following table shows certain methods and assumptions adopted by the PERS Board, which are the basis for the actuarial valuations.

Table 5
OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM
Actuarial Assumptions and Methods

ASSUMPTION/METHOD	2016 & 2017 VALUATIONS ⁽¹⁾	2018 & 2019 VALUATIONS ⁽²⁾
Actuarial Cost Method:	Entry Age Normal	Unchanged
UAL Method: T1/T2 Programs	Level Percentage of Payroll over 20 years (fixed)	Unchanged
OPSRP	Level Percentage of Payroll over 16 years (fixed)	Unchanged
Asset Valuation Method:	Market Value ⁽³⁾	Unchanged
Investment Rate of Return:	7.20%	Unchanged%
Payroll Growth Rate:	3.50%	Unchanged
Inflation Level:	2.50%	Unchanged
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 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.	Unchanged

(1) Assumptions and methods adopted by the PERS Board on July 28, 2017, that apply to actuarial valuations as of December 31, 2016, and December 31, 2017.

(2) Assumptions and methods adopted by the PERS Board on October 4, 2019 that apply to actuarial valuations as of December 31, 2018 and as of December 31, 2019 when released in the fall of 2020. See information regarding the one-time amortization of the unfunded actuarial liability as of December 31, 2019 as described in "PENION PLANS: OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM – Recent Developments Related to PERS."

(3) 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 Board adopted the final actuarial assumptions and methods for the 2018 and 2019 actuarial valuations on October 4, 2019. Such adopted actuarial assumptions and methods remain largely unchanged from the actuarial assumptions and methods used for the 2016 and 2017 actuarial valuations, with the exception of the amortization of the 2019 UAL as described in Milliman released its 2016 valuation for the Statewide PERS System as of December 31, 2016 (the "2016 System Valuation") on December 6, 2017, its 2017 valuation for the Statewide PERS System as of December 31, 2017 (the "2017 System Valuation") on September 28, 2018, and its 2018 valuation for the Statewide PERS System as of December 31, 2018 (the "2018 System Valuation") on December 12, 2019. These reports include system-wide actuarial valuations for the T1/T2 Pension Programs and OPSRP.

Milliman released the City's individual 2016 valuation as of December 31, 2016, (the "2016 City Valuation") on December 7, 2017, and its 2017 valuation as of December 31, 2017, (the "2017 City Valuation") on October 17, 2018, and the City's individual 2018 valuation as of December 31, 2018 (the "2018 City Valuation") on December 12, 2019. 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 based on the City's proportionate share of the total RHIA covered payroll as of the valuation date.

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

Table 6
OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM
Summary of Statewide PERS System Funding Levels
(\$ in Millions) ⁽¹⁾

STATEWIDE PERS SYSTEM				
Calendar	Actuarial	Unfunded		
Year	Value of	Actuarial	Actuarial	Funded
Year	Assets (2)	Liability	Liability	Ratio (%)
2009	\$43,238.8	\$56,810.6	\$13,571.8	76.1
2010	46,004.4	59,329.5	13,325.1	77.5
2011	43,238.8	61,198.4	17,959.6	76.1
2012 ⁽³⁾	49,265.9	60,405.2	11,139.3	81.6
2013 ⁽³⁾	54,090.1	62,593.6	8,503.5	86.4
2014 ⁽⁴⁾	55,518.2	73,458.9	17,940.7	75.6
2015	54,365.8	76,196.6	21,830.8	71.3
2016	55,670.2	80,970.3	25,300.1	68.8
2017	61,764.9	84,056.1	22,291.2	73.5
2018	59,593.0	86,574.7	26,981.7	68.8

(1) Composed of Tier 1/Tier 2 and OPSRP pensions but excluding retiree healthcare subsidies of RHIA.

(2) Does not take into account offsets for deposits made by individual employers from bond proceeds or cash on hand in side accounts

(3) Reflects the legislative changes enacted by the Oregon Legislative Assembly in 2013 (the “2013 PERS Bills”) to reduce future benefit payments, resulting in a reduction of the PERS unfunded actuarial liability by approximately \$5 billion.

(4) In April 2015, the Oregon Supreme Court announced a decision on lawsuits challenging the provisions of the 2013 PERS Bills. The decision upheld the elimination of a benefit increase for out-of-state retirees but declared other benefit reductions unconstitutional as applied to benefits earned prior to the June 1, 2013 effective date of the 2013 PERS Bills.

Source: Oregon Public Employees Retirement System

Table 7
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 (%)
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 ⁽²⁾	1,624.8	1,744.3	119.5	93.2
2013 ⁽²⁾	1,762.8	1,804.7	41.9	97.7
2014 ⁽³⁾	1,844.1	2,210.1	366.0	83.4
2015	1,820.6	2,335.5	514.9	78.0
2016	1,891.4	2,540.2	648.8	74.4
2017	2,171.1	2,776.3	605.2	78.2
2018	2,202.1	3,048.8	846.8	72.2

- (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. SLGRP values include pre-SLGRP and transition liabilities/surpluses created when the City joined the prior local government rate pool and the SLGRP.
- (2) Reflects the legislative changes enacted by the Oregon Legislative Assembly in 2013 (the "2013 PERS Bills") to reduce future benefit payments, resulting in a reduction of the PERS unfunded actuarial liability by approximately \$5 billion.
- (3) In April 2015, the Oregon Supreme Court announced a decision on lawsuits challenging the provisions of the 2013 PERS Bills. The decision upheld the elimination of a benefit increase for out-of-state retirees but declared other benefit reductions unconstitutional as applied to benefits earned prior to the June 1, 2013 effective date of the 2013 PERS Bills

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 8
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
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%
2013	313,291,592	41,882,231	13%
2014	335,113,826	365,964,877	109%
2015	350,158,915	514,861,639	147%
2016	362,850,562	648,861,639	179%
2017	384,409,335	605,231,941	157%
2018	434,168,788	846,761,641	195%

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 market value was revised at the OIC meeting of April 24, 2019, to 32.5 percent global equity, 17.5 percent private equity, 20 percent fixed income, 12.5 percent real estate, 7.5 percent alternatives – illiquid, 7.5 percent alternatives – diversifying strategies and 2.5 percent risk parity.

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

Table 9
OREGON PUBLIC EMPLOYEES RETIREMENT FUND
Oregon PERS Investment Returns⁽¹⁾

Fiscal Year	Net
Ending June 30	Returns (%)
2010	17.0
2011	22.3
2012	1.6
2013	12.7
2014	16.6
2015	4.3
2016	1.2
2017	11.9
2018 ⁽²⁾	9.4
2019	6.5

(1) Total fund performance, excluding variable account.
(2) The Oregon Investment Council has reported that for the calendar year ending December 31, 2018, net returns were 0.5 percent. See “—Recent Developments Related to PERS” herein.
Source: Oregon Public Employees Retirement Fund System Comprehensive Annual Financial Report for FYs 2009-10 through 2018-19

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 10
OREGON PUBLIC EMPLOYEES RETIREMENT FUND
Annualized Investment Results⁽¹⁾

Periods Ending June 30, 2019	Annualized		
	1-Year	3-Year	5-Year
Total Portfolio, Excluding Variable	6.5%	9.3%	6.7%

(1) Total fund performance, regular account. Excludes variable account.
Source: Oregon Public Employees Retirement Fund System Comprehensive Annual Financial Report for FY 2018-19

Employer Contribution Rates and Amounts

At the end of each odd-numbered year, actuarial valuations determine the employer contribution rates that are officially set by the PERS Board. Pursuant to ORS 238.225 all employers participating in PERS are required to make their contribution to PERS based on the employer contribution rates set by the PERS Board.

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.

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. See Table 5 for a summary of the Rate Collar in effect. Because of the Rate Collar, the PERS Board-approved employer contribution rates for some employers, including the City, are currently less than the actuarially required contribution (“ARC”).

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.

The table below shows the City's employer contribution rates for the 2017-19 biennium that ended on June 30, 2019. The table also shows the City's current employer contribution rates for the 2019-21 biennium that began on July 1, 2019, as reported in the 2017 City Valuation and the City's advisory-only, employer contribution rates for the 2021-23 biennium as reported in the 2018 City Valuation. The City's actual employer contribution rates for the 2021-23 biennium will be based on the City's actuarial valuation as of December 31, 2019. 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.

Table 11
OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM
Employer Contribution Rates for the City
Percentage of Covered Payroll⁽¹⁾⁽²⁾

Payrolls Paid	Past Rates 2017-2019	Current Rates 2019-21	Advisory-Only 2021-2023⁽³⁾
T1/T2	17.62%	21.86%	24.25%
OPSRP General Services	10.69	15.53	19.98
OPSRP Police and Fire	15.46	20.16	24.35

- (1) Includes contribution rates to fund RHIA. See "OTHER POST-EMPLOYEE RETIREMENT BENEFITS – PERS Program." For FY 2018-19, one percent of the City's covered payroll for the three pension benefit programs was approximately: \$1,306,567 for T1/T2 Pension Programs; \$2,471,260 for OPSRP general services; and \$642,432 for OPSRP police and fire.
- (2) Includes adjustments for side accounts and pre-SLGRP liabilities.
- (3) Advisory-only, employer contribution rates for the 2021-2023 biennium are based on the 2018 City Valuation. The City's actual employer contribution rates for the 2021-23 biennium will be based on the City's actuarial valuation report as of December 31, 2019.

Source: City of Portland, Oregon Public Employees Retirement System

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. The City cannot predict whether any legislation or related actions will attempt to further modify the PERS System or whether such attempts would withstand legal challenge.

The City's financial plan has been updated to incorporate higher growth assumptions for PERS employer rates. For each of the next two biennia (FYs 2019-20 and 2020-21 and FYs 2021-22 and 2022-23), the financial plan assumes increases in rates for both T1/T2 and OPSRP of approximately five percentage points.

City Funding Policy

In August 2014, the City Council approved a policy regarding funding of its PERS pension liability. The policy requires the City to make contributions at no less than the rate established by the PERS Board and required by ORS 238.225. 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. Pension Obligation Bonds issued as auction rate securities were fully repaid on June 1, 2019. The final maturity of the fixed rate Pension Obligation Bonds is June 1, 2029. Proceeds of the Pension

Obligation Bonds were deposited with PERS. Table 12 below shows the debt service paid by the City on its Pension Obligation Bonds.

Total City Pension 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. 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 (the “FPDR levy”). See “—PENSION PLANS: FIRE AND POLICE DISABILITY AND RETIREMENT FUND” below. In FY 2018-19, approximately 68 percent of the total cash contribution was for the employer share and 32 percent was for the employee share. The City made its required contribution for its pension obligation in all years. See “—Employer Contribution Rates and Amounts” above.

Table 12
CITY OF PORTLAND, OREGON
City Contribution Related to PERS

Fiscal Year Ending June 30	City’s Required Cash Contribution to PERS ⁽¹⁾	Debt Service on Pension Obligation Bonds	Total Cash Contribution for Pension Costs
2010	\$32,598,608	\$15,223,638	\$47,822,246
2011	33,622,080	16,416,215	50,038,295
2012	45,229,731	17,740,796	62,970,527
2013	45,278,556	19,433,725	64,712,281
2014	45,868,558	21,129,361	66,997,919
2015	46,969,145	23,074,692	70,043,837
2016	55,530,023	25,350,317	80,880,340
2017	58,637,409	27,853,142	86,490,551
2018	76,185,383	30,540,190	106,725,574
2019	86,437,805	33,027,629	119,465,434

(1) Includes City’s statutorily required employer contribution for T1/T2 and OPSRP pension program and its pension contribution on behalf of employees. Includes contributions from the FPDR levy and other non-General Fund bureaus such as the Water Bureau and the Bureau of Environmental Services.

Source: Oregon Public Employees Retirement System and City of Portland; Oregon

Recent Developments Related to PERS

In 2019, the Legislature adopted and the Governor signed Senate Bill 1049 (“SB 1049”), which makes certain modifications to the amortization of the UAL and benefits provided to employees retiring after December 31, 2019. Such modifications include: a one-time re-amortization of the UAL associated with Tier 1 and Tier 2 benefits that is measured as of December 31, 2019 and extending that amortization to 22 years; redirecting a portion of the 6 percent contributions currently made to the IAP to an “Employee Pension Stability Account” (“EPSA”) within the PERS fund when an employee’s salary exceeds \$2,500 per month (indexed annually); removing all current hourly limitations on retirees who work for a PERS employer after retirement, while mandating that such employer shall continue to make pension contributions at the previous employer rate; and capping the annual salary used in the calculation of certain retirement packages for all tiers to \$195,000 (indexed annually). According to the Legislative Fiscal Office, the re-amortization of the T1/T2 UAL from 20 years to 22 years is expected, under current actuarial assumptions, to extend the retirement of the UAL by approximately six years to 2041.

On August 9, 2019, a petition was filed with the Oregon Supreme Court challenging the constitutionality of certain portions of SB 1049. The City cannot predict whether the petitioners will be successful in whole or in part nor what the impact of a successful challenge may be. Further, the City cannot predict whether SB 1049 will be subject to additional legal challenges that could affect some or all of its provisions.

PENSION PLANS: FIRE AND POLICE DISABILITY AND RETIREMENT PLAN

Overview

The following discussion pertains to the City's Fire and Police Disability, Retirement and Death Benefit Plan (the "FPDR Plan"). The FPDR Plan was established in 1942 to provide disability, retirement and death benefits for sworn members of the City's Bureaus of Fire and Police and their survivors. The FPDR Plan is governed by a Board of Trustees (the "FPDR Board"), composed of the Mayor or Mayor's designee, two active members of the Fire and Police Bureaus and two citizens appointed by the Mayor and confirmed by the City Council. The Fire and Police member trustees are elected by the active members of the Fire Bureau and Police Bureau, respectively. The citizen trustees must have relevant experience in pension or disability matters. The FPDR Plan is administered by the Bureau of Fire and Police Disability and Retirement, led by the Fund Administrator.

The FPDR Plan's authority for vesting and benefit provisions is provided by Chapter 5 of the City Charter. Most amendments require majority approval of the voters in the City. Ten revisions have been passed by the voters since the creation of the plan. The most recent voter revision, comprised of eleven different plan amendments, was passed November 6, 2012. City Council may provide by ordinance any additional benefits that the City is required by law to extend to the members and may also change benefits by ordinance to maintain the FPDR Plan's tax-qualified status. The most recent amendments by the City Council occurred in 2016.

Benefit Programs

The FPDR Plan consists of three tiers, two of which are now closed to new employees. The retirement plans for 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. In addition to retirement benefits for FPDR One and FPDR Two members, the FPDR Plan provides service-connected, nonservice-connected, and occupational disability benefits for FPDR One, FPDR Two and FPDR Three members. FPDR Plan members do not participate in Social Security and do not receive Social Security benefits for their years of service.

FPDR One. Sworn members of the Police and Fire Bureaus subject to the FPDR Plan as constituted prior to July 1, 1990, are included in the FPDR One tier. All FPDR One members are now retired or receiving long-term disability benefits. Under FPDR One, retirement benefits are provided upon termination of employment on or after attaining age 50 (with 25 or more years of service) or 55 (with 20 years or more of service). Retirement benefits are paid to members at two percent of current top-step pay for a police officer or firefighter for each year of service (up to 60 percent); therefore, FPDR One members receive postretirement benefit increases equal to increases in current top-step police officer or firefighter pay.

FPDR Two. Sworn members of the Police and Fire Bureaus subject to the FPDR Plan as constituted after June 30, 1990, and first sworn before January 1, 2007, are included in the FPDR Two tier. Under FPDR Two, retirement benefits are provided upon termination of employment on or after attaining age 55, or on or after attaining age 50 if the member has 25 or more years of service. Members become 100 percent vested after five years of service. Benefits are paid using a formula tied to years of service and the highest one-year base pay the member received during the final three years of employment. The FPDR Board has the authority to grant postretirement benefit increases to FPDR Two members, so long as the increases do not exceed increases awarded to sworn retirees of PERS. Members enrolled in the FPDR Plan and still working 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.

FPDR Three. Sworn members of the Police and Fire Bureaus hired on or after January 1, 2007, are included in the FPDR Three tier; those sworn on or after January 1, 2013, become FPDR Three members after six months of service. These participants are part of OPSRP for retirement benefits and are under the FPDR Plan for disability and pre-retirement death benefits, offset by any benefits received on account of disability or death under OPSRP. Retirement benefits for these participants are pre-funded, and the FPDR levy pays the employee and employer portions of the OPSRP contribution. For information regarding OPSRP and the employee and employer contribution rates for OPSRP, see "PENSION PLANS: OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM," above.

Funding

The FPDR levy is 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) that is not exempt from such levy. The FPDR levy has been sufficient in all years to meet required annual benefit payments. In the event that collections from this special property tax levy are less than the amount required for payment of benefits in any particular year, the FPDR Fund could receive advances from the FPDR Reserve Fund first and then from other City funds to make up the difference. 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, other legally available City funds.

Although the City Charter provides the FPDR Plan with dedicated property tax levy authority, the Oregon state constitution caps each property’s general government taxes at \$10 per \$1,000 of Real Market Value. After reaching this point, all levies, including the FPDR levy, are subject to compression under the State Constitution (“Measure 5 compression”) to fit within the \$10 limit. For this reason, it is unlikely that FPDR could collect the full \$2.80 per \$1,000 of Real Market Value on each property. In FY 2019-20, the tax loss due to Measure 5 compression was \$7.77 million, or 4.6 percent of the FPDR levy.

Retirement Plan Asset Valuation and Liabilities

The table below shows key assumptions for the most recent valuation of the FPDR Plan. Mortality and other assumptions are regularly reviewed and updated as needed. The discount rate is equal to the June 30 value of the Bond Buyer General Obligation 20-Bond Municipal Bond Index each year, in accordance with the requirement of Governmental Accounting Standards Board Statement No. 67 (“GASB 67”) that plans use a risk-free discount rate for the portion of the plan’s liability that is not prefunded.

**Table 13
CITY OF PORTLAND, OREGON
FPDR Plan – Actuarial Assumptions and Methods
For the June 30, 2018, Valuation**

Actuarial Cost Method	Entry Age Normal
Actuarial Value of Assets	Market Value
Funding Policy	Pay-As-You-Go
Discount Rate	3.87%
Payroll Growth Rate	3.75%

Source: Milliman Inc., City of Portland Fire & Police Disability & Retirement (FPDR) Fund, Pension Actuarial Valuation Report as of June 30, 2018, dated January 15, 2019

As distinguished from the pension plan for FPDR Three members, assets generally are not accumulated in the current year to pay for benefit payments in future years for the FPDR Plan. The table below shows funding levels for the FPDR Plan over the past ten fiscal years. In accordance with the Charter’s provisions, there are no requirements to fund the FPDR Plan using actuarial techniques. The FPDR Plan is funded on a pay-as-you-go basis. Each year’s benefits and expenses are paid for with employer contributions derived from dedicated property tax revenue received during that year. Because of the FPDR Plan’s pay-as-you-go funding basis, the unfunded actuarial accrued pension liability and net pension liability (the new terminology per GASB 67 implemented by the City effective June 30, 2014), do not reflect the value of dedicated future revenues from the property tax levy. See “—Levy Adequacy” below. As reflected in the City’s CAFR for its fiscal year ended June 30, 2019, and required by GASB 68, the net pension liability for the FPDR Plan is a primary factor in the City’s unrestricted net position deficit for governmental activities for FY 2018-19, and contributed to the City’s total net position decrease from FY 2012-13 to FY 2013-14, when GASB 68 was implemented. See table entitled “Net Position by Component Last Ten Fiscal Years (accrual basis of accounting)” on page 390 of the City’s CAFR for its fiscal year ended June 30, 2019.

Table 14
CITY OF PORTLAND, OREGON
FPDR Plan --Summary of Funding Levels ⁽¹⁾

Fiscal Year	Actuarial Value of Assets	Actuarial Liability	Unfunded Actuarial Liability ⁽¹⁾	Funded Ratio ⁽²⁾
2009 (3)	\$11,571,074	\$2,279,923,000	\$2,268,351,926	0.51%
2010	16,542,896	2,549,479,088	2,532,936,192	0.65%
2011 (3)	25,648,253	2,610,360,794	2,584,712,541	0.98%
2012 (3)	20,287,803	2,674,072,175	2,653,784,372	0.76%

Fiscal Year ⁽³⁾	Plan Net Position, Ending	Total Pension Liability	Net Pension Liability ⁽²⁾	Net Position as Percent of Total Liability ⁽²⁾
2013	\$17,155,015	\$2,517,096,534	\$2,499,941,519	0.68%
2014	20,532,924	2,473,970,866	2,453,437,942	0.83%
2015	21,876,942	2,896,894,767	2,875,017,825	0.76%
2016	17,425,353	3,391,461,315	3,374,035,962	0.51%
2017	14,150,087	3,367,105,729	3,352,955,642	0.42%
2018	17,790,774	3,295,142,974	3,277,352,200	0.54%
2019	20,001,298	3,568,635,904	3,548,634,606	0.56%

(1) Table reflects transition to new accounting classifications as required by the Governmental Accounting Standards Board beginning with FY 2012-13.

(2) Does not include value of future dedicated FPDR property tax collections.

(3) Amounts are calculated by rolling forward prior actuarial valuations. See Table 15 below for a summary of the June 30, 2016, and June 30, 2018, valuations.

Source: City of Portland audited financial statements

Overall the net pension liability decreased from \$3.67 billion on June 30, 2016, to \$3.31 billion on June 30, 2018, as shown in Table 15 below. Note that these valuations differ from results shown in Table 14 above because they are based on actual results prepared by Milliman and are not roll-forward amounts of prior valuations.

Table 15
CITY OF PORTLAND, OREGON
FPDR Plan--Summary of Most Recent Actuarial Valuations

Fiscal Year Ending June 30	Plan Assets	Total Pension Liability	Net Pension Liability
2016	\$17,425,353	\$3,689,965,110	\$3,672,539,757
2018	17,790,776	3,323,733,057	3,305,942,281

Source: Milliman Inc., City of Portland Fire & Police Disability & Retirement (FPDR) Fund, Pension Actuarial Valuation Report as of June 30, 2018, dated January 15, 2019

The primary reason for the reduction in the plan's pension liability is the increase in the discount rate (the June 30 value of the Bond Buyer General Obligation 20-Bond Municipal Bond Index each year). The rate rose from 2.85 percent on June 30, 2016 to 3.87 percent on June 30, 2018, dropping the pension liability by \$554 million. In addition, projected longevity declined for some participant types as a result of changes in mortality assumptions, which decreased the pension liability by a relatively small \$35 million. Mortality assumptions are routinely updated to reflect the experience of the larger and more statistically valid Oregon PERS sworn population. Partially offsetting these reductions were increases caused by divergence between recent experience and long-term assumptions, particularly with respect to active participant salary growth.

FPDR Fund and Levy Adequacy

A critical measure of the FPDR Fund’s financial health is whether the dedicated property tax will ever be insufficient to fully cover benefit expenditures both for the pay-as-you-go FPDR Plan and contributions to the pre-funded OPSRP plan. The table below compares the certified tax levy for FPDR Plan contributions (for FPDR One and FPDR Two participants) and OPSRP contributions (for FPDR Three participants) with the amount authorized based on the \$2.80/\$1,000 Charter limitation. Between FY 2010-11 and FY 2019-20, Real Market Value of property subject to taxation has grown by a compounded annual rate of approximately 6.5 percent.

**Table 16
CITY OF PORTLAND, OREGON
FPDR Fund--Certified Levies Compared with Maximum Levies Authorized**

FYE June 30	Tax Levy per \$1,000 RMV	Certified Tax Levy ⁽¹⁾	Maximum Levy Authorized (\$2.80/1,000 RMV)	Amount Available to be Certified from Authorized Levy
2011	\$1.37	\$118,526,184	\$241,849,105	\$123,322,921
2012	1.41	114,264,711	227,257,618	112,992,907
2013	1.55	123,564,952	223,709,460	100,144,508
2014	1.62	136,383,540	235,325,707	98,942,167
2015	1.48	136,883,230	259,331,341	122,448,111
2016	1.30	133,795,013	287,358,793	153,563,780
2017	1.15	138,900,728	338,199,473	199,298,745
2018	1.13	155,553,793	384,951,394	229,397,601
2019	1.09	163,748,624	419,138,031	255,389,407
2020	1.10	168,768,476	427,766,153	258,997,677

(1) Before Measure 5 Compression, delinquencies and discounts.
Source: City of Portland

The table below shows historical taxes imposed (after Measure 5 compression) and historical expenditures for retirement benefits and death and disability benefits. As fire and police retirement benefits transition from a pay-as-you-go system to a pre-funded system through OPSRP, the FPDR levy will be funding pensions for two generations of FPDR members simultaneously: FPDR One and FPDR Two members who are funded on a pay-as-you-go basis during their retirement years and FPDR Three members whose retirement benefits are pre-funded through OPSRP during their working careers. Costs for disability benefits will continue to be paid on a pay-as-you go basis. As described below, higher costs are expected over approximately the next 20 years, with the potential for higher tax levy rates.

Table 17
CITY OF PORTLAND, OREGON
Pension Benefits and Death/Disability Benefits

Fiscal Year Ending June 30	Imposed Tax Levy⁽¹⁾	FPDR One & Two Pension Benefits	FPDR Three OPSRP Contributions	Disability & Funeral Benefits	Total FPDR Benefit Contributions
2010	\$111,376,678	\$89,038,110	\$2,210,250	\$9,075,988	\$100,324,348
2011	114,217,070	90,464,611	2,865,737	7,938,636	101,268,984
2012	108,666,428	94,708,986	4,735,637	7,064,187	106,508,810
2013	115,752,880	99,417,595	5,265,815	6,725,710	111,409,120
2014	123,304,615	103,506,696	5,998,321	7,410,977	116,915,994
2015	126,777,805	103,355,638	6,952,685	6,219,646	116,527,969
2016	126,376,817	107,074,899	8,699,501	6,420,506	122,194,906
2017	132,477,613	113,826,622	9,672,695	6,525,351	130,024,668
2018	148,214,877	119,616,359	13,318,516	6,050,635	138,985,510
2019	156,454,895	124,145,879	15,515,328	6,587,313	146,248,520

(1) Amount after Measure 5 Compression but not adjusted for delinquencies and discounts.

Source: City of Portland

The FPDR Board assesses the FPDR Plan’s long-term financial condition in part by projecting the future availability of revenues from the dedicated property tax (the “Levy Adequacy Analysis”), which are the source of employer contributions under the Charter. The most recent Levy Adequacy Analysis, completed by an independent actuary in connection with the actuarial valuation of the fund, was as of June 30, 2018. The Levy Adequacy Analysis found that, under a wide range of simulated economic scenarios over the next 20 years, the future FPDR levy would remain under \$2.80 per \$1,000 of Real Market Value, but the levy exceeded the \$2.80 threshold in at least one year in approximately one percent of modeled scenarios. This represents a decline from about three percent of modeled scenarios in the prior analysis as of June 30, 2016. Continued growth in real market values in the City’s tax base has further increased the likelihood that the FPDR levy will be sufficient to fund benefits and expenses for the entire life of the FPDR Plan. Plan costs peak in FY 2036-37 in nominal terms; the peak on an inflation-adjusted basis is in FY 2031-32.

The table below shows projected levy rates and taxes levied at the 50th and 5th percentiles of scenarios for FY 2018-19 through FY 2037-38 as included in the 2018 Levy Adequacy Analysis. Note that the actual levy rate per \$1,000 of Real Market Value was \$1.09 for FY 2018-19 and \$1.10 for FY 2019-20.

Table 18
CITY OF PORTLAND, OREGON
FPDR Fund--Projected Levy Rate, Taxes and Requirements⁽¹⁾

Fiscal Year Ending June 30	Levy Rate at 50th Percentile	Taxes Levied at 50th Percentile	Levy Rate at 5th Percentile	Taxes Levied at 5th Percentile
2019	\$1.08	\$161,900,000	\$1.08	\$161,900,000
2020	1.09	171,900,000	1.09	172,000,000
2021	1.10	180,100,000	1.23	181,700,000
2022	1.16	198,600,000	1.37	203,000,000
2023	1.17	208,900,000	1.43	214,600,000
2024	1.19	222,900,000	1.54	235,700,000
2025	1.20	235,900,000	1.60	250,600,000
2026	1.22	251,700,000	1.70	272,200,000
2027	1.24	266,400,000	1.77	289,700,000
2028	1.25	281,700,000	1.85	311,300,000
2029	1.26	296,800,000	1.89	329,900,000
2030	1.32	324,700,000	2.03	363,800,000
2031	1.32	339,900,000	2.06	383,200,000
2032	1.32	354,900,000	2.11	404,400,000
2033	1.31	369,600,000	2.14	423,000,000
2034	1.29	380,700,000	2.18	442,600,000
2035	1.27	391,900,000	2.17	457,600,000
2036	1.18	381,100,000	2.10	455,000,000
2037	1.15	388,400,000	2.07	466,700,000
2038	1.02	358,900,000	1.89	440,800,000

(1) Results are expressed as a probability distribution. Amounts shown in table are median values within percentile categories. Actual rates for FY 2017-18 and FY 2018-19 are found in the table titled “FPDR Fund—Certified Levies Compared with Maximum Levies Authorized.”

Source: Milliman, Inc., *FPDR Levy Adequacy Analysis as of June 30, 2018, dated January 22, 2019*

The current analysis extends through FY 2037-38 and encompasses all facts, decisions and conditions pertaining to the FPDR Plan known at the time the analysis was completed. Future actuarial measurements may differ significantly from the measurements presented herein due to factors such as changes in economic or demographic assumptions (including changes in Real Market Value); changes related to PERS, performance of investments, and changes in FPDR Plan benefit provisions or applicable law.

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 2018 City Valuation, the City’s allocated share of the RHIA program’s UAL was (\$6,363,951) as of December 31, 2018.

The City’s current employer contribution rates to fund RHIA benefits during the 2019-21 biennium for T1/T2 employees is 0.06 percent and for OPSRP general services and police and fire employees is 0.00 percent. According to the 2018 City Valuation, the advisory-only rates to fund RHIA benefits during the 2021-23 biennium for T1/T2 employees is 0.05 percent and for OPSRP general services and policy and fire employees is 0.00 percent. These employer contribution rates to fund RHIA are included in the rates described in Table 11 above. Actual employer contribution rates to fund RHIA for the 2021-23 biennium will be based on the City’s actuarial valuation report as of December 31, 2019.

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” or “HIC”). GASB 75 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. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The City’s annual OPEB cost is calculated based on the actuarially-determined service cost, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded liability over a period of 30 years. The City’s estimated unfunded actuarial accrued liability for OPEB as of July 1, 2018 was \$100,197,951. The valuation was 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 of a discount rate of 3.90 percent, 2.2 percent inflation rate, annual healthcare cost trend rates of 4.5 to 7.5 percent, and retirees’ share of benefit-related costs of 26 percent of estimated program costs.

For FY 2018-19, the changes to the total OPEB liability is calculated as follows:

Balance at 6/30/18	\$100,197,951
Changes for the year:	
Service cost	3,675,148
Interest	3,640,097
Changes of assumptions	(2,777,647)
Benefit payments	<u>(5,567,867)</u>
Net Changes	<u>(1,030,269)</u>
Balance at 6/30/19	<u>\$99,167,682</u>

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, 2019.

The City expects to use a pay-as-you-go approach to fund its actuarial accrued liability and OPEB obligation, but will monitor its OPEB liability and assess whether a different approach is needed in future years.

Implementation of Governmental Accounting Standards Board Statement No. 75

Beginning in its CAFR for FY 2017-18, the City implemented Governmental Accounting Standards Board Statement No. 75, which changed employer reporting of OPEB for state and local governments. Under this new standard, for FY 2018-19, the City has reported in its CAFR the following balances:

	Deferred	Net OPEB	
	Outflow/(Inflow) of	Liability/(Asset)	OPEB Expense
	Resources		
RHIA	\$779,521	(\$4,177,752)	(\$410,434)
HIC	(\$1,650,289)	\$99,167,682	\$5,979,579
Total	<u>(\$870,768)</u>	<u>\$94,989,930</u>	<u>\$5,569,145</u>

See the City’s CAFR for the fiscal year ended June 30, 2019, which is posted on the EMMA website.

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 Water 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 Water 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 Water System.

Portland Harbor Superfund Site. In 2000, Portland Harbor, a 10-mile industrial stretch of the Lower Willamette River outside of the City's urban center, was listed by the EPA as a Superfund site. The EPA notified the City that it may have liability for releases of contaminants in the Willamette River. The City may also have liabilities to Natural Resource Trustees of the Willamette River (including tribes, and federal and state resource agencies) for damages to natural resources in Portland Harbor.

In 2017, the EPA issued its Record of Decision for the cleanup plan for the Portland Harbor Superfund Site. For purposes of comparing relative cleanup costs of different remedies, the EPA prepared rough (-30% to +50%) cost estimates of remedy costs. Using this method, the EPA estimated capital costs to implement the selected remedy of approximately \$1.05 billion in 2017 dollars, estimated by the EPA to be \$1.7 billion in actual future dollars. Since the issuance of the Record of Decision, the EPA has required an additional phase of environmental sampling before remedy implementation. The additional work and EPA's interpretation of remedy requirements may change the expected costs of the remedy. The costs associated with the remedy have not been allocated among the numerous potentially liable parties.

The Natural Resource Trustees have not made a final determination of the total damages to natural resources and those costs have not been allocated among the numerous potentially liable parties.

The City is participating in voluntary, negotiated settlement processes to determine how cleanup costs can be allocated among all responsible parties. These processes cannot be concluded until the parties reach agreement or the liabilities are litigated. The City will defend against a significant allocation of liability to the City for cleanup and natural resource damages. Under Superfund law, responsible parties that fail to enter into agreements to remediate and restore Superfund sites become subject to legal action by the EPA for cleanup and restoration, including imposition of fines. Once initiated, the remedial design and implementation phase is expected to be conducted and funded over many years. The City expects to have an extended period to identify funding strategies and to fund its share of the remedy.

On July 12, 2019 a complaint was filed in Multnomah County Circuit Court challenging the City's use of ratepayer funds on expenditures related to partial settlement of City liabilities on the Portland Harbor Superfund site. Under the agreement authorizing this expenditure, the City is obligated to pay to the EPA the total sum of \$12,000,000 from both City General Fund and ratepayer sources. The complaint challenged only the City's authority to utilize ratepayer funds for this purpose. Based on the Circuit Court's prior rulings on this issue, the City is confident that the Charter of the City of Portland duly authorizes the City to expend ratepayer funds for this purpose.

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 2015, 2016, 2017, 2018 and 2019. Copies of these financial statements containing the reports of the independent certified public accountants are available on the on the MSRB's EMMA system for municipal securities disclosure at <http://emma.msrb.org>. and 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, 2015 through June 30, 2019.

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
Transportation Operating Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Generally Accepted Accounting Principles Basis
for Fiscal Year Ended June 30

	2015	2016	2017	2018	2019
Revenues					
Taxes	\$ -	\$ -	\$ 9,787,463	\$ 20,886,761	\$ 21,280,528
Licenses and fees	6,848,288	8,375,150	11,491,538	20,001,016	17,580,851
Intergovernmental revenues	65,525,722	74,687,073	72,509,930	80,085,753	91,157,749
Charges for services	14,168,262	14,222,163	22,088,953	19,774,523	16,206,936
Interagency	29,320,265	27,670,348	26,437,990	26,518,705	30,245,880
Parking fees	30,505,563	36,973,104	44,072,289	49,051,356	50,803,032
Parking fines	6,438,629	7,957,472	7,206,634	6,928,776	8,169,824
Rents and reimbursements	566,728	709,649	769,692	873,931	1,088,443
Miscellaneous service charges	2,493,378	2,601,277	10,534,725	7,854,092	8,933,739
Assessments	1,423,200	1,346,522	1,641,192	2,585,161	1,428,704
Investment earnings	404,899	1,222,075	739,838	1,580,581	7,853,864
Other miscellaneous revenues	4,174,492	4,068,125	3,150,316	2,184,857	1,096,706
Total revenues	161,869,426	179,832,958	210,430,560	238,325,512	255,846,256
Expenditures					
Transportation	145,956,223	131,023,308	150,593,882	155,377,462	164,542,135
Capital outlay	26,042,580	26,136,988	32,189,849	36,079,646	59,174,531
Debt service and related costs	14,017,910	18,758,057	46,045,810	15,270,240	15,932,280
Total expenditures	186,016,713	175,918,353	228,829,541	206,727,348	239,648,946
Excess (deficiency) of revenues over (under) expenditures	(24,147,287)	3,914,605	(18,398,981)	31,598,164	16,197,310
Other Financing Sources (Uses)					
Transfers in	16,556,575	33,721,655	25,193,698	25,789,297	29,837,721
Transfers out	(4,778,525)	(4,269,154)	(3,497,605)	(3,588,467)	(3,141,407)
Proceeds from sale of capital assets	-	3,600	405	4,275	2,731
Bonds and notes issued	24,196,709	3,539,894	28,308,147	-	1,395,609
Refunding bonds issued	-	6,284,509	20,000,000	-	-
Bonds and notes premium	-	-	6,906,614	-	-
Total other sources (uses)	35,974,759	39,280,504	76,911,259	22,205,105	28,094,654
Net change in fund balances	11,827,472	43,195,109	58,512,278	53,803,269	44,291,964
Fund balance, beginning	71,374,015	83,201,487	126,396,596	184,908,874	238,712,143
Fund balances, ending	\$ 83,201,487	\$ 126,396,596	\$ 184,908,874	\$ 238,712,143	\$ 283,004,107

Source: Derived from City of Portland audited annual financial statements

CITY OF PORTLAND, OREGON
Transportation Operating Fund
Consecutive Balance Sheets
as of June 30

	2015	2016	2017	2018	2019
ASSETS					
Unrestricted:					
Cash and investments (1)	\$ 28,839,603	\$ 59,900,325	\$ 49,773,572	\$ 26,421,059	\$ 1,078,155
Receivables:					
Taxes					
Accounts, net	12,413,233	14,694,535	7,548,070	12,532,727	11,140,430
Assessments	2,399,510	2,589,563	2,895,156	2,995,128	1,256,704
Notes and loans, net	125,000	125,000	125,000	125,000	125,000
Advances	-	215,000	-	100,000	100,000
Accrued interest	143,908	301,968	496,784	905,846	1,477,016
Due from other funds	37,958	-	-	-	-
Due from component unit	82	200	200	-	1,483
Internal loans	4,000,000	4,500,000	8,000,000	10,000,000	8,500,000
Inventories	7,117,403	6,413,703	6,131,048	7,086,962	7,100,289
Prepaid items	291,013	284,083	284,083	284,082	284,083
Restricted:					
Cash and investments (1)	39,013,371	47,917,229	117,836,110	177,040,083	246,098,476
Receivables: Taxes	-	-	-	-	3,238,755
Receivables: Accounts, net	-	-	13,123,582	15,211,118	12,500,500
Total assets	<u>\$ 94,381,081</u>	<u>\$ 136,941,606</u>	<u>\$ 206,213,605</u>	<u>\$ 252,702,005</u>	<u>\$ 292,900,891</u>
LIABILITIES AND FUND BALANCES					
Liabilities payable from unrestricted assets:					
Accounts payable	\$ 5,314,161	\$ 4,164,970	\$ 16,034,211	\$ 9,439,906	\$ 6,716,409
Due to component unit	-	1,456,461	-	-	-
Unearned revenue	1,941,614	930,769	1,064,075	349,520	699,845
Other accrued liabilities	-	-	-	-	-
Liabilities payable from restricted assets:					
Accounts payable	-	-	35,131	245,750	861,641
Total liabilities	<u>7,255,775</u>	<u>6,552,200</u>	<u>17,133,417</u>	<u>10,035,176</u>	<u>8,277,895</u>
Deferred inflows of resources:					
Unavailable revenue - unrestricted	3,923,819	3,992,810	4,171,314	3,954,686	1,618,889
Fund Balance:					
Nonspendable	7,408,416	6,697,786	6,415,131	7,371,044	7,384,372
Restricted	39,013,371	47,917,229	130,924,561	192,005,451	260,976,090
Assigned	36,779,700	71,781,581	47,569,182	39,335,648	14,643,645
Total fund balance	<u>83,201,487</u>	<u>126,396,596</u>	<u>184,908,874</u>	<u>238,712,143</u>	<u>283,004,107</u>
Total liabilities and fund balance	<u>\$ 94,381,081</u>	<u>\$ 136,941,606</u>	<u>\$ 206,213,605</u>	<u>\$ 252,702,005</u>	<u>\$ 292,900,891</u>

(1) Cash balances from System Development Charges (SDCs) are recognized as restricted cash.

Source: City of Portland audited annual financial statements.