ANNUAL DISCLOSURE INFORMATION

Pertaining to

City of Portland, Oregon

$4,400,000
Gas Tax Revenue Refunding Bonds, 2005 Series A
Dated March 17, 2005

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

February 15, 2015

MATURITY SCHEDULES:

$4,400,000 Gas Tax Revenue Refunding Bonds, 2005 Series A – Dated March 17, 2005

Due 1-Jun	Principal Amount	Interest Rate	CUSIP 736694
2015	$480,000	3.60%	CC2
2016	495,000	3.75%	CD0

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

Due 1-Feb	Principal Amount	Interest Rate	CUSIP 736694
2016	$1,285,000	4.00%	CH1
2017	1,335,000	4.00%	CJ7
2018	1,390,000	4.40%	CK4
2019	1,445,000	5.00%	CL2
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

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ANNUAL DISCLOSURE INFORMATION

Pertaining to:

$4,400,000
Gas Tax Revenue Refunding Bonds,
2005 Series A – Dated March 17, 2005

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

Information Updated as of February 15, 2015

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. Beginning November 26, 2008, the City implemented its SAP financial system. As part of this implementation, all grant expenditures and revenues are accounted for in the City's Grants Fund. PBOT's funds and their financial reporting purpose are described as follows.

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 interfund cash transfers and interfund service reimbursements. Beginning on the date of implementation of the City's SAP financial system, all grant expenditures and revenues are recorded in the City's Grants Fund. Any grant revenues and expenditures that occurred prior to the date of implementation remained in this 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, 2014, the Transportation Reserve Fund balance is approximately $3 million; or about 32 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.")

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, fees for vehicle registration, and 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

TAX OR FEE	2009-10	2010-11	2011-12	2012-13	2012-13
Motor fuels tax Cents per gallon	$0.24	$0.30	$0.30	$0.30	$0.30
Annual general purpose vehicle registration fee	$27.00	$43.00	$43.00	$43.00	$43.00
Weight-mile tax 78,001 to 80,000 lbs. weight group/rate per mile	$.01316	$.01638	$.01638	$.01638	$.01638

Source: City of Portland, PBOT.

The motor fuels tax is currently collected at the rate of $0.30 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 $43 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 increases 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 on January 2004. Revenues collected beyond the amount

necessary to service the debt is 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 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.

With full implementation of the JTA: Motor fuels tax is now $.30 per gallon; Annual general purpose vehicle registration fee is $43, and the 78,001 to 80,000 lbs weight group/rate per mile (the weight-mile tax) is $.1638.

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 ($1.02 million in FY 2012-13) are withheld by the County for the care of the Willamette River bridges and are not pooled. After pooling these revenues, $2.73 million, adjusted annually by an inflation rate based on CPI-U, 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 receipted 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

	2009-10	2010-11	2011-12	2012-13	2013-14
Allocation of Gas Tax Revenues (Per Gas Tax Contract)					
Transfer to City of State Highway					
Fund Monies Received by the County	$15,113,814	$18,139,247	$20,183,261	$20,234,616	$21,482,260
Transfer to City of Allocation					
Of $.03/ Gallon County License Tax	3,971,287	4,283,357	3,873,610	3,616,064	3,803,371
Subtotal – Revenues Received from County	19,085,101	22,422,604	24,056,871	23,850,680	25,285,631
Allocation of State Highway Fund Monies (1)	24,083,129	28,520,729	31,853,052	32,102,376	33,728,454
Total Gas Tax Revenues	$43,168,230	$50,943,333	$55,909,922	$55,953,056	$59,014,085
Gas Tax Bond Debt Service (2)	$760,038	$750,378	$749,628	$2,499,951	$2,479,800
Gas Tax Bond Debt Service Coverage (x)	56.8	67.9	70.4	22.4	23.8

Notes:

(1) Includes Motor Fuel Taxes, Weight Mile Taxes, Vehicle Registration Fees, and Other Miscellaneous Revenues imposed and collected by the State.
(2) FY 2012-13 reflects the first year of debt service on the Gas Tax Revenue Bonds, 2011 Series A.

Source: City of Portland, PBOT.

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.

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

	2009-10	2010-11	2011-12	2012-13	2013-14
RESOURCES					
Licenses and permits	$2,494,039	$2,441,625	$2,820,796	$3,564,622	$3,726,335
Intergovernmental revenues:					
State cost sharing (1)	189,181	57,275	621,302	0	293,680
Federal cost sharing	897,888	887,770	5,073	13,969	7,040
Grant revenue	1,577,431	3,329,956	--	--	--
State revenue sharing	24,083,129	28,520,729	31,885,187	32,116,353	33,728,454
Local government sources:					
Local revenue sharing	22,321,085	25,160,390	27,181,812	28,362,965	29,910,672
Multnomah County cost sharing	--	56,477	47,731	74,838	345,344
Local cost sharing	566,041	236,252	1,138,721	10,142,279	80,625
LID payments unbonded	224,478	183,998	766,293	555,116	
Service charges and fees	29,655,716	32,239,259	37,038,022	47,614,739	48,269,454
Billings for interfund services	27,788,711	27,101,452	27,628,640	29,314,512	30,296,599
Miscellaneous	2,008,918	1,309,849	2,557,231	1,824,772	4,892,931
Other financing sources (2)	43,341,886	22,992,311	42,481,830	52,905,768	71,425,387
Beginning fund balance available for appropriation	9,435,675	5,850,439	1,925,289	30,721,573	45,047,100
Total resources	$164,584,178	$150,367,782	$176,097,927	$237,211,506	$268,023,621
REQUIREMENTS					
Personal services	$56,860,133	$57,598,239	$61,415,122	$61,067,576	$63,003,243
Materials and services	54,465,519	72,666,695	51,651,379	106,313,474	109,236,342
Capital outlay(1)	28,422,748	6,840,673	20,912,219	6,399,684	11,277,151
Overhead charges--General Fund	5,150,632	4,056,527	4,720,041	5,802,573	6,804,210
Debt service and related costs:					
Principal	2,655,151	3,704,137	3,244,685	6,347,767	6,323,059
Interest	1,832,255	1,761,166	1,689,562	1,616,473	3,319,140
Debt issuance costs	--	31,630	52,277	248,222	134,130
Other financing uses (3)	9,347,301	1,783,426	1,691,069	4,368,637	7,142,483
Ending fund balance	5,850,439	1,925,289	30,721,573	45,047,100	60,783,863
Total requirements	$164,584,178	$150,367,782	$176,097,927	$237,211,506	$268,023,621

Notes:

(1) Grant activity is reported in the City's Grants Fund. Transportation related grant activity recorded in the Grants Fund was about $64 million in FY 2009-10, $98 million in FY2010-11, $73 million in FY 2011-12, $17 million in FY 2012-13 and $13 million in FY 2013-14. The drop in capital outlay in FY 2012-13 is largely attributable to winding down of the Streetcar project and stimulus funded projects.

(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 PBOTs share of the City's pension bonds, and transfers for the repayment of internal loans.

Source: City of Portland, PBOT.

AGM-INSURED BONDS

Payment of the principal and interest on the City's Gas Tax Revenue Refunding Bonds, 2005 Series A (the "AGM-Insured Bonds") is insured by a financial guaranty insurance policy held by Assured Guaranty Municipal Corporation ("AGM"). The initial financial guaranty insurance policy was purchased from FSA; however, in July 2009 AGM acquired FSA and is now the insurance provider.

As of the date of this Annual Disclosure document AGM's rating by Moody's Investors Service ("Moody's") is A2. The underlying rating of the AGM-Insured Bonds is Aa2 from Moody's. According to Moody's rating of AGM on January 17, 2013, "Moody's ratings on securities that are guaranteed or "wrapped" by a financial guarantor are generally maintained at a level equal to the higher of the following: a) the rating of the guarantor (if rated at the investment grade level); or b) the published or unpublished underlying rating (and for structured securities, the published or unpublished underlying rating). Moody's approach to rating wrapped transactions is outlined in Moody's special comment entitled 'Assignment of Wrapped Ratings When Financial Guarantor Falls Below Investment Grade' (May, 2008); and Moody's November 10, 2008 announcement entitled 'Moody's Modifies Approach to Rating Structured Finance Securities Wrapped by Financial Guarantors'." The insured maturities are listed in the following table.

Table 4
CITY OF PORTLAND, OREGON
AGM-Insured Bonds

Gas Tax Revenue Refunding Bonds,
2005 Series A – Dated March 17, 2005

Due 1-Jun	Principal Amount	Interest Rate	CUSIP 736694
2015	$480,000	3.60%	CC2
2016	495,000	3.75%	CD0

Source: City of Portland

GAS TAX RESERVE CREDIT FACILITIES

The City has funded a portion of the Gas Tax Reserve Fund with "Gas Tax Reserve Credit Facilities." The Master Gas Tax Revenue Bond Ordinance states that a Gas Tax Reserve Credit Facility is a Credit Facility issued for the purpose of funding, in lieu of cash, all or any portion of the Gas Tax Reserve Requirement, under which the Credit Provider agrees to unconditionally provide the City with funds for the payment of Gas Tax bonds. A Credit Facility is defined as "a letter of credit, municipal bond insurance policy, a surety bond, standby bond purchase agreement or other credit enhancement device which is obtained by the City to secure Bonds, and which is issued or provided by a Credit Provider whose long-term debt obligations or claims paying ability (as appropriate) are rated one of the two highest rating categories by a Rating Agency which rated the bonds secured by the Credit Facility." The City is not obligated to replace the Credit Facility in the event that the rating of the Credit Facility provider is downgraded below one of the two highest rating categories subsequent to the issuance of the bonds to which the Credit Facility applies.

The following table describes outstanding Gas Tax Reserve Credit Facilities that are credited to the Gas Tax Reserve Fund.

Table 5
CITY OF PORTLAND, OREGON
Gas Tax Reserve Credit Facility and Provider (1)

Date of Issue	Termination Date	Surety Provider	Surety Face Amount	Insurer's Moody's Rating
03/07/2005	06/01/2016	AGM (2)	$440,000	A2

Notes:

(1) As of February 15, 2015.

(2) The City purchased Reserve Credit Facilities from FSA for the Gas Tax Revenue Bonds, Assured Guaranty acquired FSA and the surety bond provider for these bonds is now Assured Guaranty Municipal Corp. ("AGM").

Source: City of Portland.

CITY FINANCIAL AND OPERATING INFORMATION

BASIS OF ACCOUNTING

The governmental fund types, expendable trust funds and agency funds are maintained on the modified accrual basis of accounting. The accounting practices of the City conform to generally accepted accounting principles.

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 2013-14.

A complete copy of the City's FY 2013-14 audit is available on the City's web site at http://www.portlandoregon.gov/bfs/64176. The City's web site is listed for reference only, and is not part of this Annual Disclosure document.

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 Council conducts an extensive public information process to obtain direct public input on City service priorities, and most bureaus include key stakeholders in developing their budget requests.

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

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

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

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

INSURANCE

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

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

The City provides insurance coverage that the City deems to be adequate, appropriate, and actuarially sound to meet the City's anticipated settlements, obligations and outstanding liabilities as described above. Current levels of accrued claims and retained earnings are viewed as reasonable provisions for expected future losses. The City purchases commercial insurance for claims in excess of coverage provided by the self-insurance fund. An excess liability coverage insurance policy covers occurrences in excess of $1,000,000 to policy limits for covered loss excluding law enforcement liability. Effective November 12, 2013, the excess liability for law enforcement requires a $2.5 million retention before insurance begins coverage. An excess workers' compensation coverage insurance policy covers claims in excess of $850,000 for occurrences after July 1, 2014.

Personal Injury and Death Claim

Under ORS 30.272, the liability of a local public body and its officers, employees and agents acting within the scope of their employment or duties, to any single claimant for covered personal injury or death claims (and not property claims) arising out of a single accident or occurrence may not exceed $666,700 for causes of action arising on or after July 1, 2014, and before July 1, 2015. The liability limits to all claimants for covered personal injury or death claims (and not property claims) arising from a single accident or occurrence increases to $1,333,300 for causes of action arising on or after July 1, 2014, and before July 1, 2015. For causes of action arising on or after July 1, 2015, the liability limits for both a single claimant and all claimants will be adjusted based on a determination by a State Court Administrator of the percentage increase or decrease in the cost of living for the previous calendar year as provided in the formula in ORS 30.272. The adjustment may not exceed three percent for any year.

Property Damage or Destruction Claim

Under ORS 30.273, the liability of a public body and its officers, employees and agents acting within the scope of their employment or duties, for covered claims for damage and destruction of property that arise from causes of action arising on or after July 1, 2014, and before July 1, 2015, are as follows: (a) $109,400 for any single claimant and (b) $546,800 to all claimants. These liability limits are adjusted based on a determination by a State Court Administrator of the percentage increase or decrease in the cost of living for the previous calendar year as provided in the formula in ORS 30.273. The adjustment may not exceed three percent for any year.

PENSION PLANS

Overview

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

City employees (other than certain fire and police personnel), after six months of employment, participate in one of three retirement pension benefit programs provided through PERS as described below. The three PERS pension programs include two closed defined benefit programs and one program that has features of both defined benefit and defined contribution plans. In a defined benefit plan, the investment risk for the plan assets is borne by the employer. In a defined contribution plan, the

investment risk for the plan assets is borne by the employee. A combination of participating employer contributions (determined by the PERS Board based upon the results of actuarial valuations), investment earnings and employee contributions (currently 6 percent of salaries and 9 percent for police and fire employees) fund these pension programs. See "—Employer Contribution Rates and Amounts" and "—Fire and Police Disability and Retirement Plan" below.

Benefit Programs

Employees hired before January 1, 1996 are known as "Tier 1" participants. The retirement benefits applicable to Tier 1 participants are based on a defined benefit model. Tier 1 has an assumed earnings rate guarantee of 7.75 percent and a normal retirement age of 58. PERS maintains a "Tier One Rate Guarantee Reserve" which is credited with investment earnings in excess of the assumed earnings rate guarantee and used to offset the effects of investment earnings below the assumed earnings rate guarantee. As of June 30, 2014, the balance of this reserve was $434 million. As of June 30, 2014, there were 36,176 active plan members, 118,496 inactive plan members currently receiving benefits, 14,901 inactive plan members entitled to but not yet receiving benefits, and 1,712 inactive members not eligible for refund or retirement, for a total of 171,285,Tier 1 members in the Statewide PERS System.

Employees hired on or after January 1, 1996, and before August 29, 2003, are known as "Tier 2" participants. The Tier 2 program also provides a defined benefit but with lower expected costs to employers than under the Tier 1 benefit. There is no assumed earnings rate guarantee and Tier 2 has a higher normal retirement age of 60. As of June 30, 2014, there were 43,367 active members 9,447 inactive plan members currently receiving benefits, 11,277 inactive plan members entitled to but not yet receiving benefits, and 5,112 inactive members not eligible for refund or retirement, for a total of 69,203 Tier 2 members in the Statewide PERS System.

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

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

Apportionment of City Assets and Liabilities

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

Employer Asset Valuation and Liabilities

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

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

Table 6
OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM
Actuarial Assumptions and Methods

ASSUMPTION/METHOD	PREVIOUS (2004-2011 VALUATIONS)	CURRENT (2012-2013 VALUATIONS)
Actuarial Cost Method:	Projected Unit Credit	Entry Age Normal
UAL -Method:		
T1/T2 Programs	Level Percentage of Payroll over 20 years (fixed)	Level Percentage of Payroll over 20 years (fixed) (1)
OPSRP	Level Percentage of Payroll over 16 years (fixed)	Level Percentage of Payroll over 16 years (fixed)
Asset Valuation Method:	Market Value (2)	Market Value (2)
Investment Rate of Return:	8.00%	7.75%
Payroll Growth Rate:	3.75%	3.75%
Inflation Level:	2.75%	2.75%
Contribution Rate Stabilization Method:	Contribution rate may increase or decrease by 3% of payroll or by 20% of the previous rate; whichever is greater, when an employer's funded status is between 80% and 120%. At a funded status of 70% or less, or 130% or more, the limitation doubles to 6% of payroll or 40% of the previous rate, whichever is greater. At a funded status between 70% and 80% or 120% and 130%, the limitation increases in increments between 3%-6% of payroll or 20%-40% of the previous rate, whichever is greater.	Contribution rate may increase or decrease by 3% of payroll or by 20% of the previous rate; whichever is greater, when an employer's funded status is between 70% and 130%. At a funded status of 60% or less, or 140% or more, the limitation doubles to 6% of payroll or 40% of the previous rate, whichever is greater. At a funded status between 60% and 70% or 130% and 140%, the limitation increases in increments between 3%-6% of payroll or 20%-40% of the previous rate, whichever is greater.

Notes:

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

Source: Oregon Public Employees Retirement System.

The PERS actuary released its 2012 valuation for the Statewide PERS System as of December 31, 2012 (the "2012 System Valuation") on December 13, 2013, and its 2013 valuation for the Statewide PERS System as of December 31, 2013 (the "2013 System Valuation") on September 29, 2014. These reports include system-wide actuarial valuations for the T1/T2 Pension Programs and OPSRP.

The PERS actuary released the City's individual 2012 valuation as of December 31, 2012 (the "2012 City Report") on December 27, 2013, and its individual 2013 valuation report as of December 31, 2013 (the "2013 City Report") on October 7, 2014. These valuation reports provide the City's portion of (a) the SLGRP based on the City's proportionate share of the total SLGRP covered payroll as of the valuation date, (b) OPSRP based on the City's proportionate share of total OPSRP covered payroll as of the valuation date, and (c) the RHIA.

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

Table 7
OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM
Summary of Statewide PERS System Funding Levels
($ in Millions) [1]

STATEWIDE PERS SYSTEM				
Calendar Year	Actuarial Value of Assets	Actuarial Liability	Unfunded Actuarial Liability	Funded Ratio
2004 [2][3]	$45,708.3	$47,398.6	$1,690.3	$96.4
2005 [4]	51,403.9	49,294.0	-2,109.9	104.3
2006	56,616.5	51,252.9	-5,363.6	110.5
2007	59,327.8	52,871.2	-6,456.6	112.2
2008	43,520.6	54,259.5	10,738.9	80.2
2009	48,729.2	56,810.6	8,081.4	85.8
2010	51,583.6	59,329.5	7,745.9	86.9
2011	50,168.2	61,198.4	11,030.2	82.0
2012[3][5]	54,784.1	60,405.2	5,621.1	90.7
2013[5]	60,014.1	62,593.6	2,579.5	95.9

Notes:

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

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

(3) Effective with the 2004 System valuation, the cost method changed from Entry Age Normal to Projected Unit Credit, and the value of assets was changed from a four-year smoothed value to market value among other changes. In 2012, the cost method was changed back to Entry Age Normal.

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

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

Source: Oregon Public Employees Retirement System.

Table 8
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
2004 [2] [3]	$1,295.5	$1,294.9	$(0.6)	100.0%
2005 [4]	1,459.9	1,367.1	(92.8)	106.8
2006	1,619.3	1,432.0	(187.3)	113.1
2007	1,635.0	1,410.8	(224.2)	115.9
2008	1,280.6	1,539.9	259.2	83.2
2009	1,424.0	1,606.0	182.0	88.7
2010	1,499.8	1,672.5	172.7	89.7
2011	1,459.0	1,724.2	265.3	84.6
2012[3] [5]	1,624.8	1,744.3	119.5	93.2
2013[5]	1,762.8	1,804.7	41.9	97.7

Notes:

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

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

(3) Effective with the 2004 System valuation, the cost method changed from Entry Age Normal to Projected Unit Credit, and the value of assets was changed from a four-year smoothed value to market value among other changes. In 2012, the cost method was changed back to Entry Age Normal.

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

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

Source: Oregon Public Employees Retirement System.

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

Table 9
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
2004	$220,669,089	$(587,340)	0%
2005	226,295,315	(92,818,145)	-41%
2006	242,259,162	(187,332,041)	-77%
2007	259,889,403	(224,199,619)	-86%
2008	289,371,762	259,241,423	90%
2009	303,851,551	182,019,126	60%
2010	307,538,429	172,726,579	56%
2011	303,508,135	265,267,189	87%
2012	311,688,601	119,477,128	38%
2013	313,291,592	41,882,231	13%

Source: Oregon Public Employees Retirement System.

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

State Investment Policy

The Oregon State Treasury is the investment officer for the state of Oregon. Investment standards are established in ORS 293.726 and require funds to be managed as a prudent investor would do. The Oregon Investment Council ("OIC") establishes policies for the investment and reinvestment of moneys in PERS investment funds. Policies are established based on the primary investment asset class of each investment manager. The OIC has approved the following asset classes for the OPERF: Short-Term Investing, Fixed Income, Real Estate, Public and Private Equities, and Alternative Investments. In addition, OPERF invests in the Opportunity Portfolio, which may be populated with investment approaches across a wide range of investment opportunities with no limitation as to asset classes or strategies. The target investment portfolio mix at fair market value as of June 30, 2014, is 37.5 percent public equity, 20 percent private equity, 20 percent debt securities, 12.5 percent real estate, and 5 percent alternative equity.

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

Table 10
OREGON PUBLIC EMPLOYEES RETIREMENT FUND
Oregon PERS Investment Returns (1)

Fiscal Year Ending	Net Returns (%)
2005	13.9
2006	14.4
2007	18.6
2008	-3.5
2009	-22.2
2010	17.0
2011	22.3
2012	1.6
2013	12.7
2014	16.6

Notes:

(1) Total fund performance, excluding variable account.

Source: "Oregon PERS Monthly Returns" as of June 30 of the respective fiscal year shown in the table, website of the Oregon State Treasurer, Investment Division, Oregon Public Employees Retirement Fund (OPERF) as of September 3, 2014.

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

Table 11
OREGON PUBLIC EMPLOYEES RETIREMENT FUND
Annualized Investment Results (1)

	Annualized		
Periods Ending June 30, 2014	1-Year	3-Year	5-Year
Total Portfolio, Excluding Variable	16.6%	10.1%	13.8%

Notes:

(1) Total fund performance, excluding variable account.

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

Employer Contribution Rates and Amounts

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

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

At the end of each odd-numbered year, actuarial valuations determine the employer contribution rates that are officially set by the PERS Board. All employers participating in PERS are required to make their contribution to PERS based on the employer contribution rates set by the PERS Board. The City's employer contribution rates were derived using a rate stabilization methodology (the "Rate Collar") designed to cap rate increases and reduce large fluctuations in employer contribution rates. Such rate increases are shifted to future biennia, including the 2015-17 biennium. See Table 6 for a summary of the Rate Collar in effect for the 2012 City Report and the 2013 City Report.

The table below shows the City's current employer contribution rates. The table also shows the City's future rates for the 2015-17 biennium as reported in the 2013 City Report. The rates reflect the impact of legislation passed during the 2013 Oregon Legislature Special Session and are based on assumptions and methodologies adopted by the PERS Board at its September 27, 2013, meeting. See Table 6 for a summary of the assumptions and methodologies and see "—Recent Developments Related to PERS" below. The future rates are used by the City in projecting and planning for pension costs in future years. The rates reported in the table do not include the six percent and nine percent employee contribution rates for contributions to the IAP paid by the City. The City's contribution rates may increase or decrease due to a variety of factors, including the investment performance of the OPERF, the use of pension-related reserves, further changes to system valuation methodology and assumptions and decisions by the PERS Board, and changes in benefits resulting from legislative modifications.

Table 12
OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM
Current and Future Employer Contribution Rates
Percentage of Covered Payroll (1)

	Current Rates	Future Rates
Payrolls Paid	**2013-15**	**2015-17**
T1/T2	9.34%	13.34%
OPSRP General Services	7.52%	7.53%
OPSRP Police and Fire	10.25%	11.64%

Notes:

(1) For FY 2013-14, one percent of the City's covered payroll for the three pension benefit programs was approximately: $1,638,465 for T1/T2 Pension Programs; $1,142,076 for OPSRP general services; and $302,851 for OPSRP police and fire.

Source: City of Portland, Oregon Public Employees Retirement System, and 2013 City Report prepared by Milliman.

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

City Funding Policy

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 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. The final maturity of the fixed rate Pension

Obligation Bonds is June 1, 2029. Pension Obligation Bonds issued as auction rate securities mature on June 1, 2019. Table 13 presents debt service on the City's Pension Obligation Bonds for the past ten fiscal years.

Proceeds of the Pension Obligation Bonds were deposited in an account with PERS. The City opted to amortize the original deposit ratably over the life of the bonds. Table 13 below shows the amount of bonds amortized annually and debt service paid by the City on its Pension Obligation Bonds. As of June 30, 2014, the remaining unamortized balance of the bond proceeds deposited with PERS was $132,540,936.

Total City Pension and RHIA Contribution

The following table shows the amount of City contributions paid to PERS for the three pension programs including amounts paid by the City for the employee contribution, as well as contributions to RHIA. Contributions include the payments from the Fire and Police Disability and Retirement Fund for pensions of police and firefighters participating in the T1/T2 Pension Programs and OPSRP. Fire and Police Disability and Retirement Fund contributions are funded from a dedicated Citywide property tax levy. See "—Fire and Police Disability and Retirement Fund" below. In FY 2013-14, 54.4 percent of the total cash contribution was for the employer share, 42.0 percent was for the employee share, and 3.6 percent of the total was for the City's contribution to RHIA.

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

Table 13
CITY OF PORTLAND, OREGON
City Contributions to PERS and Total Pension-Related Contributions

Fiscal Year	Total City Required Contribution (1)	Amortization of Pension Obligation Bonds (2)	City's Cash Contribution to PERS (3)	Debt Service on Pension Obligation Bonds	Total Cash Contribution for Pension Costs
2005	$28,857,496	$8,579,719	$20,277,777	$11,987,632	$32,265,409
2006	29,765,118	8,597,252	21,167,866	14,635,732	35,803,598
2007	31,172,696	8,597,252	22,575,444	18,990,492	41,565,936
2008	32,779,658	8,597,252	24,182,406	19,839,413	44,021,819
2009	43,924,072	8,597,252	35,326,820	16,059,937	51,386,757
2010	41,195,860	8,597,252	32,598,608	15,223,638	47,822,246
2011	42,219,332	8,597,252	33,622,080	16,413,710	50,035,790
2012	53,826,983	8,597,252	45,229,731	17,738,966	62,968,697
2013	53,875,808	8,597,252	45,278,556	19,432,611	64,711,167
2014	54,465,810	8,597,252	45,868,558	21,128,704	66,997,262

Notes:

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

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

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

Source: City of Portland

Recent Developments Related to PERS

During the 2013 Legislative Session and the 2013 Special Session the Legislative Assembly enacted Senate Bills 822, 861, and 862 (the "PERS Bills") that together: limit annual benefits cost of living adjustments ("COLAs"), for PERS retirees, eliminate a benefit increase for out-of-state retirees based on Oregon income tax, exclude salary increase given to pay for insurance costs from the final average salary used to calculate pension benefits, and reduce legislators' participation in PERS. The 2013 PERS Bills are expected to reduce the amount of future benefit payments from the System and reduce the unfunded actuarial liability of the System by approximately $5 billion.

In addition to legislative actions, in 2013 the PERS Board made other adjustments that were estimated by PERS to increase the unfunded actuarial liability of the System by approximately $2.5 billion. See Table 6 for a summary of the changes made by the PERS Board.

As shown in Table 7, the unfunded actuarial liability of the PERS Statewide System decreased from $11.03 billion as of December 31, 2011, to $5.62 billion as of December 31, 2012 and to $2.58 billion as of December 31, 2013. That decrease reflects the combined effects of the 2013 PERS Bills, the 2013 Board changes, changes in the actuarial value of the System assets, 2013 investment returns well above the assumed earnings rate of 7.75 percent, and other factors that are taken into account in the formal valuation of the System by Milliman. See "Table 7—OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM—Summary of Statewide PERS System Funding Levels" and "Table 8—OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM—Summary of City Funding Levels."

Any such estimates and projections are subject to change based on various factors including actual PERS investment earnings, and further changes in PERS actuarial methods and assumptions by the PERS Board and changes in legislation affecting the System. In addition, the PERS Bills have been challenged in the Oregon courts. See "—Challenges to PERS Reforms" below. If the 2013 PERS Bills are overturned as a result of legal challenges, the unfunded actuarial liability of the System may increase by as much as $5 billion and employer contribution rates in future biennia may be increased. The City cannot predict whether any legislation or any related actions of the PERS Board will withstand any legal challenges.

Challenges to PERS Reforms

Several cases have been filed on behalf of PERS retirees and active employees challenging changes to PERS retirement benefits that were enacted by the Legislative Assembly in the 2013 Legislative Session and 2013 Special Session. See "—Recent Developments Related to PERS." Challenges to the PERS Bills have been filed directly with the Oregon Supreme Court. The petitioners allege that PERS Bills constitute a breach of contract as well as an impairment of contract and a taking of property rights in violation of the Oregon and United States constitutions. The Oregon Supreme Court appointed a Special Master to prepare a report and findings of fact for the Supreme Court. The Special Master's Final Report and Recommended Findings of Fact (the "Special Master's Report") were presented to the Supreme Court on April 30, 2014 and the parties filed briefs in the Oregon Supreme Court, which heard oral arguments on October 14, 2014. If the PERS Bills are held unconstitutional, the anticipated savings from the PERS changes that were calculated as part of the City's FY 2013-14 budget and FY 2014-15 budget, and that are reflected in the funded status for PERS and the City in the 2013 System Valuation and the 2013 City Valuation, respectively, may not be realized.

Fire and Police Disability and Retirement Fund

The following discussion pertains to the City's Fire and Police Disability and Retirement ("FPDR") Fund. Most of the fire and police sworn personnel are covered under the FPDR Plan. The FPDR Plan consists of three tiers, two of which are now closed to new employees. FPDR One, the original plan, and FPDR Two, in which most active fire and police personnel participate, are single-employer, defined-benefit plans administered by the FPDR Board of Trustees. FPDR Three participants are part of OPSRP for retirement benefits and are under the FPDR Plan for disability and death benefits. For information regarding OPSRP and the employee and employer contribution rates for OPSRP, see "PENSION PLANS – General," above. The authority for the FPDR Plan's vesting and benefit provisions is contained in the Charter of the City. A ballot measure approved by voters November 6, 2012, changed the eligibility for membership in the FPDR Plan of fire and police personnel from generally upon employment to after six months of continuous sworn employment. The FPDR Plan provides for FPDR Two and Three service-connected disability benefits at 75 percent of salary, reduced by 50 percent of any wages earned in other employment with a 25 percent of salary minimum, for the first year of disability and 25 to 75 percent of salary in later years, depending on medical status and ability to obtain other employment. The FPDR Plan also provides for FPDR Two and Three nonservice-connected disability benefits at zero to 50 percent of salary.

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

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

Board has directed that the disability and pension programs be audited on a five-year cycle. The disability program audit is underway now and the pension audit will be undertaken in 2015.

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

The November 6, 2012, ballot measure also clarified final pay calculations, eliminated a provision to increase vested termination benefits if the member was subsequently employed in PERS-covered service prior to FPDR retirement, and reduced the eligibility threshold for non-service connected death before retirement from ten years of service to five. Changes by the 2013 Oregon Legislature reduced the maximum percentage rate that the FPDR Board may use in determining FPDR Two benefit adjustments from two percent to 1.25 percent and eliminated a tax remedy benefit related to the start of Oregon taxation of state and local pensions in 1991 for FPDR Plan participants whose pension benefits are not subject to Oregon personal income tax. Challenges to these changes are before the Oregon Supreme Court with a decision expected in 2015.

The FPDR Plan is funded by a special property tax levy which cannot exceed two and eight-tenth mills on each dollar of valuation of property ($2.80 per $1,000 of real market value) not exempt from such levy. The FPDR property tax levy has been sufficient in all years to meet required annual benefit payments. In the event that funding for the FPDR Plan is less than the required payment of benefits to be made in any particular year, the FPDR Fund could receive advances from the FPDR Reserve Fund first and other City funds second, to make up the difference. Repayment of advances, if any, would be made from the special property tax levy in the succeeding year. In the event that the special property tax levy is insufficient to pay benefits because benefits paid exceed the two and eight-tenth mills limit, other City funds would be required to make up the difference. The FY 2014-15 levy of $136,883,230 required a tax rate of $2.6671 per $1,000 of assessed property value, or approximately $1.48 per $1,000 of gross real market value.

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

The FPDR Fund's Board periodically assesses the future availability of property tax revenues by having projections and simulations performed in connection with the actuarial valuation of the Fund. The most recent assessment was as of June 30, 2014. The Fund's Board believes that, under a wide range of simulated economic scenarios in the foreseeable future, the future FPDR Fund levy would remain under $2.80 per $1,000 of real market value, but the levy exceeded the $2.80 threshold in at least one year in approximately four percent of modeled scenarios. Pay-as-you-go costs peak in fiscal year 2036 in nominal terms; the peak on an inflation-adjusted basis is in fiscal year 2029.

The City implemented Statement No. 67 of the Government Accounting Standards Board (GASB 67) effective June 30, 2014. Overall the unfunded actuarial liability decreased from $2.89 billion on June 30, 2012, to $2.49 billion on June 30, 2014. To comply with GASB 67, the 2014 valuation used a bond market index rate that was 4.29 percent as of June 30, 2014. The increase in the discount rate from 3.50 percent to 4.29 percent accounted for $274 million of the decreased liability. Plan provisions changes due to the 2013 Oregon Legislature, which reduced the cost of living adjustment rate and eliminated the additional tax offset benefit for participants not subject to Oregon personal income tax, reduced the liability by $293 million.

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 2012 City Report, the City's allocated share of the RHIA program's UAL is $6,539,359 as of December 31, 2012, and according to the 2013 City Report, the City's allocated share of the RHIA program's UAL is $4,336,291as of December 31, 2013.

The City's current total contribution rate to fund RHIA benefits for T1/T2 employees is 0.59 percent and for OPSRP general services employees and police and fire employees is 0.50 percent. According to the 2013 City Report, the City's total contribution rate to fund RHIA benefits during the 2015-2017 biennium for T1/T2 employees is 0.53 percent and for OPSRP general services and police and fire employees is 0.45 percent.

Health Insurance Continuation Option

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

The OPEB liability associated with the Health Insurance Continuation Option is an actuarially-determined amount calculated in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The valuation is prepared using the Entry Age Normal actuarial cost method and amortized over an open period of 30 years using the level percentage of projected pay. Other assumptions include a 3.5 percent investment rate of return, and annual healthcare cost trend rates of two to 8.5 percent for health insurance, negative ten to five percent for dental insurance, and three percent for vision. The City's unfunded actuarial accrued liability for OPEB is solely attributable to the Health Insurance Continuation Option and at the valuation date of July 1, 2013 (the date of the most recent actuarial valuation), is estimated to be $103,990,506. The unfunded actuarial accrued liability as a percentage of covered payroll is 30 percent. 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, 2015.

The City's annual OPEB cost is calculated based on the actuarially-determined annual required contribution ("ARC"), 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. For FY 2013-14, the amount to be recognized as the annual employer OPEB cost was $8,421,398. For fiscal year ended June 30, 2014, the City benefits paid on behalf of retirees exceeded the premiums they paid by $2,685,634. The City elected to not pre-fund the FY 2013-14 annual OPEB cost of $8,421,398. The amount unfunded in FY 2013-14 is $39,084,687, which is the OPEB obligation from the beginning of the fiscal year, plus the ARC for FY 2013-14 along with interest on the net OPEB obligation and adjustments, less payments made in relation to the FY 2013-14 net OPEB obligation. 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.

LITIGATION

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

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

On December 6, 2011, the City received a complaint in Anderson et al. v. City of Portland, Multnomah County Circuit Court case No. 1112-15957. The complaint challenges certain expenditures by the City's Water Bureau and Bureau of Environmental Services and asks for an order requiring the City to reimburse the Water Fund and Sewage Disposal Fund for those expenditures. The complaint does not allege the amount in dispute or the source of the reimbursement. The City is currently investigating the claims. Based on current incomplete information, the City estimates that if plaintiffs prevailed on all claims and a court ordered the relief requested, the reimbursement amount could exceed $50 million. The City has not identified potential sources of any court-ordered reimbursement, but such sources could include any legally available resources of the City, including the City's General Fund. The City will vigorously defend the lawsuit and believes that it is unlikely that the plaintiffs will prevail on the majority of the claims alleged.

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

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 2010, 2011, 2012, 2013 and 2014. Copies of these financial statements containing the reports of the independent certified public accountants are available on the City's website at:

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

The following pages in this Appendix A are excerpted from the City's Comprehensive Annual Financial Reports of the City for Fiscal Years ending June 30, 2010 through June 30, 2014. Any Notes that follow the tabular data have been prepared by the City and have not been reviewed by the independent auditor.

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

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

	2010	2011	2012	2013	2014
Revenues					
Rents and reimbursements	$ 276,414	$ 315,271	$ 490,598	$ 584,768	$ 508,800
Licenses and fees	2,494,039	2,441,625	10,220,144	3,564,622	3,726,335
Intergovernmental revenues	49,634,754	57,367,854	60,879,826	70,710,403	64,365,815
Charges for services	30,471,398	31,546,808	33,824,740	40,423,389	42,194,500
Parking fees	21,420,844	22,129,697	23,645,128	25,210,847	26,782,608
Parking fines	4,355,712	5,134,633	5,572,913	6,692,495	6,574,304
Miscellaneous service charges	920,059	1,095,297	1,133,283	4,017,751	2,505,841
Assessments	224,478	183,998	766,293	555,116	266,649
Investment earnings	83,602	83,983	180,504	99,770	470,519
Other miscellaneous revenues	1,924,095	1,251,657	2,447,021	1,615,191	4,327,222
Total revenues	111,805,395	121,550,823	139,160,450	153,474,352	151,722,593
Expenditures					
Transportation	131,813,483	117,181,135	101,448,869	159,991,927	167,521,250
Community Development	-	-	-	-	
Capital outlay	13,135,041	23,721,930	34,250,630	19,988,673	22,275,877
Debt service and related costs	4,487,406	5,496,933	4,986,524	8,212,462	9,776,329
Total expenditures	149,435,930	146,399,998	140,686,023	188,193,062	199,573,456
Excess (deficiency) of revenues over (under) expenditures	(37,630,535)	(24,849,175)	(1,525,573)	(34,718,710)	(47,850,863)
Other Financing Sources (Uses)					
Transfers in	39,641,173	19,349,182	14,447,000	12,712,772	20,082,696
Transfers out	(2,558,788)	(1,716,779)	(2,033,169)	(4,227,557)	(4,642,483)
Proceeds from sale of capital assets	-	308,050	71,440	72,800	-
Bonds and notes issued	352,279	3,840,000	16,633,569	37,335,808	45,404,379
Bonds and notes premium	-	-	1,330,473	2,784,389	5,938,312
Total other sources (uses)	37,434,664	21,780,453	30,449,313	48,678,212	66,782,904
Net change in fund balances	(195,871)	(3,068,722)	28,923,740	13,959,502	18,932,041
Fund balance, beginning	12,823,325	12,627,454	9,558,732	38,482,472	52,441,974
Change in inventory	-	-	-	-	-
Fund balances, ending	$ 12,627,454	$ 9,558,732	$ 38,482,472	$ 52,441,974	$ 71,374,015

Source: Derived from City of Portland audited annual financial statements.

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

	2010	2011	2012	2013	2014
ASSETS					
Unrestricted:					
Cash and investments (1)	$ -	$ -	$ 6,437,566	$ 13,185,082	$ 31,915,211
Receivables:					
Taxes					
Accounts, net	6,029,146	10,645,937	11,080,682	10,838,145	11,174,241
Assessments	429,578	686,363	794,652	778,445	1,082,038
Notes and loans, net	-	-	-	-	125,000
Accrued interest	20,607	-	47,506	61,067	83,280
Due from other funds	351,789	351,789	351,789	37,958	37,958
Due from component unit	3,978,460	90	150	270	82
Internal loans	4,589,433	5,100,000	2,500,000	2,500,000	2,000,000
Inventories	2,177,544	2,509,360	5,166,521	4,910,307	5,434,125
Prepaid items	1,027,536	315,086	300,943	300,943	291,013
Restricted:					
Cash and investments (1)	1,509,334	2,637,326	18,803,168	26,652,459	31,794,588
Total assets	$ 20,113,427	$ 22,245,951	$ 45,482,977	$ 59,264,676	$ 83,937,536
LIABILITIES AND FUND BALANCES					
Liabilities payable from unrestricted assets:					
Accounts payable	$ 3,475,202	$ 9,377,957	$ 4,683,493	$ 4,451,106	$ 6,357,932
Due to component unit	9,330	-	-	-	
Internal loans payable	-	-	-	-	
Deferred revenue	633,352	738,147	1,832,716	-	
Unearned revenue	2,246,548	2,567,650	481,147	509,263	3,621,086
Other accrued liabilities	24,453	3,465	3,149	3,149	3,150
Liabilities payable from restricted assets:					
Accounts payable	1,097,088	-	-	-	
Total liabilities	7,485,973	12,687,219	7,000,505	4,963,518	9,982,168
Deferred inflows of resources:					
Unavailable revenue - unrestricted	-	-	-	1,859,184	2,581,353
Fund Balance:					
Reserved for:					
Transportation and metered parking	2,177,544	-	-	-	-
Petty cash	-	-	-	-	-
Inventories	-	-	-	-	-
Unreserved, reported in:					
Major funds	10,449,910	-	-	-	-
Nonspendable	-	2,824,446	5,467,464	5,211,250	5,725,138
Restricted	-	20,774,274	18,803,168	26,652,459	31,794,588
Assigned	-	-	14,211,840	20,578,265	33,854,289
Unassigned	-	(14,039,988)	-	-	
Total fund balance	12,627,454	9,558,732	38,482,472	52,441,974	71,374,015
Total liabilities and fund balance	$ 20,113,427	$ 22,245,951	$ 45,482,977	$ 59,264,676	$ 83,937,536

Notes:

(1) Beginning in FY 2005-06, cash balances from System Development Charges (SDCs) was recognized as restricted cash. For FY 2009-10 through FY 2010-11, the amounts shown are net of intrafund loans of $21.3 million and 18.1 million respectively, of SDC cash for operating purposes. These funds were restored in FY 2011-12 and made available for SDC projects.

Source: City of Portland audited annual financial statements.