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BOOK-ENTRY ONLY

RATINGS: Moody's Aa3/Aaa Insured
Standard & Poor's AA-/AAA Insured
(Bonds Maturing June 1, 2011 – June 1, 2015
Insured by MBIA Insurance Corporation)

In the opinion of Kirkpatrick & Lockhart Preston Gates Ellis LLP, Portland, Oregon, Bond Counsel, assuming compliance with certain covenants of the City, interest on the 2007 Series A Bonds is excludable from gross income of the owners of the 2007 Series A Bonds for federal income tax purposes under existing law. Interest on the 2007 Series A Bonds is not an item of tax preference for purposes of either individual or corporate alternative minimum tax. Interest on the 2007 Series A Bonds may be indirectly subject to corporate alternative minimum tax and certain other taxes imposed on certain corporations. See "TAX EXEMPTION" herein for a discussion of the opinion of Bond Counsel. In the opinion of Bond Counsel, interest on the 2007 Series A Bonds is exempt from Oregon personal income tax under existing law.

City of Portland Oregon
$193,510,000
First Lien Sewer System Revenue Refunding Bonds
2007 Series A

BASE CUSIP: 736742

DATED: Date of Delivery **DUE:** As shown on inside cover

The First Lien Sewer System Revenue Bonds, 2007 Series A (the "2007 Series A Bonds") will be issued in registered book-entry form only, in denominations of $5,000 or integral multiples thereof. The 2007 Series A Bonds, when executed and delivered, will be registered in the name of Cede & Co., as the registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2007 Series A Bonds. While Cede & Co. is the registered owner of the 2007 Series A Bonds (the "Owner") as nominee of DTC, references herein to the Bondowners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the 2007 Series A Bonds. See "BEO System" herein.

MATURITIES, AMOUNTS AND INTEREST RATES AS SHOWN ON THE REVERSE HEREOF

The 2007 Series A Bonds will bear or accrue interest rates as set forth on the inside cover. The 2007 Series A Bonds will be dated as of the Date of Delivery. Interest on the 2007 Series A Bonds will be payable semiannually on June 1 and December 1 of each year, beginning June 1, 2007.

The scheduled payment of principal and interest on the 2007 Series A Bonds maturing on June 1, 2011, through June 1, 2015, inclusive, when due will be guaranteed by a financial guaranty insurance policy to be issued by MBIA Insurance Corporation concurrently with the delivery of the 2007 Series A Bonds. The 2007 Series A Bonds maturing on June 1, 2007 through June 1, 2010, inclusive, are not insured.

The 2007 Series A Bonds being offered pursuant to this Official Statement are being issued to currently refund certain outstanding maturities of the Sewer System Revenue Refunding Bonds, 1997 Series A, to pay the premium for a municipal bond debt service reserve insurance policy, and to pay other costs of issuance of the 2007 Series A Bonds. See "THE 2007 SERIES A BONDS – ESTIMATED SOURCES AND USES OF BOND PROCEEDS" herein.

The 2007 Series A Bonds are secured by a first lien on, and are payable solely from, the Net Revenues and amounts required to be deposited in the Debt Service Account and Reserve Account as provided in City Ordinance No. 160276, as amended, supplemented and clarified by subsequent ordinances (the "First Lien Bond Ordinance"). See "PROVISIONS OF THE 2007 SERIES A BONDS -- SPECIAL OBLIGATION, PLEDGE OF NET REVENUES" herein. The 2007 Series A Bonds do not constitute general obligations of the City, and neither the full faith and credit nor the taxing power of the City is pledged for the payment of the principal of, premium (if any), or interest on the 2007 Series A Bonds. No recourse may be had against any funds or assets of the City (other than the Net Revenues of the Sewer System and the accounts described in this paragraph) to enforce payment of any amounts owing under or with respect to the 2007 Series A Bonds.

The 2007 Series A Bonds are not subject to optional redemption prior to maturity. See "THE 2007 SERIES A BONDS -- OPTIONAL REDEMPTION" herein.

This cover page contains certain information for quick reference only. It is not a summary of the issue. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

The 2007 Series A Bonds are offered when, as and if issued by the City and accepted by the successful bidder, subject to prior sale, withdrawal or modification of the offer without notice, to the final approving opinion of Kirkpatrick & Lockhart Preston Gates Ellis LLP, Bond Counsel, Portland, Oregon, and to certain other conditions. The City expects that the 2007 Series A Bonds will be available for delivery through the facilities of DTC in New York, New York on or about March 8, 2007.

Official Statement Dated February 27, 2007

MATURITY SCHEDULE

$193,510,000

FIRST LIEN SEWER SYSTEM REVENUE REFUNDING BONDS
2007 SERIES A

Due June 1	Principal Amount	Interest Rate	Price or Yield	CUSIP No. 736742
2007	$710,000	5.000%	3.650%	PM 3
2008	15,700,000	5.000	3.670	PN 1
2009	16,480,000	5.000	3.660	PP 6
2010	17,310,000	5.000	3.700	PQ 4
2011	25,940,000	5.000	3.600	PR 2 †
2012	27,230,000	5.000	3.620	PS 0 †
2013	28,590,000	5.000	3.640	PT 8 †
2014	30,020,000	5.000	3.700	PU 5 †
2015	31,530,000	5.000	3.725	PV 3 †

† The 2007 Series A Bonds maturing on June 1, 2011, through June 1, 2015, are insured by MBIA Insurance Corporation.

OFFICIAL STATEMENT
OF THE
CITY OF PORTLAND
MULTNOMAH, WASHINGTON AND CLACKAMAS COUNTIES
STATE OF OREGON
CITY OF PORTLAND, OREGON

$193,510,000
First Lien Sewer System Revenue Refunding Bonds
2007 Series A

CITY COUNCIL

Tom Potter,
Mayor and Commissioner of Finance and Administration

Sam Adams, Commissioner of Public Utilities
Randy Leonard, Commissioner of Public Safety
Dan Saltzman, Commissioner of Public Affairs
Erik Sten, Commissioner of Public Works

CITY OFFICIALS

Gary Blackmer, City Auditor
David E. Thurman, City Treasurer
Linda Meng, City Attorney

Kenneth L. Rust, Interim Chief Administrative Officer
Jennifer Sims, Interim Chief Financial Officer

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Portland, Oregon

No dealer, broker, salesperson or other person has been authorized by the City of Portland (the "City") to give any information or to make any representations, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. Bond Counsel's review of this document is limited; see "LEGAL MATTERS" herein. This Official Statement has been deemed final as of its date by the City pursuant to Rule 15c2-12 of the Securities Exchange Act of 1934, as amended. In accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, the Underwriters have reviewed the information in this Official Statement but do not guarantee its accuracy or completeness.

This Official Statement speaks only as of its date, and the information contained herein is subject to change without notice. Certain statements contained in this Official Statement are projections, forecasts and other statements about future events. These statements ("Forward Looking Statements") are not statements of historical facts and no assurance can be given that the results shown in these Forward Looking Statements will be achieved. See "FORWARD LOOKING STATEMENTS." All estimates set forth herein have been made on the best information available and are believed to be reliable, but no representations whatsoever are made that such estimates are correct. So far as any statements herein involve any matters of opinion, whether or not expressly so stated, they are intended merely as such and are not representations of fact.

This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of, the 2007 Series A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The 2007 Series A Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon a specific exemption contained in such act, nor have the 2007 Series A Bonds been registered under the securities laws of any state.

In making an investment decision, potential investors must rely on their own examination of the City and the terms of the offering, including the merits and risks involved. These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this Official Statement. Any representation to the contrary is a criminal offense.

In connection with this offering, the successful bidder may over allot or effect transactions which stabilize or maintain the market price of the 2007 Series A Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued, and if discontinued, then recommenced, at any time.

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OFFICIAL STATEMENT

OF THE

CITY OF PORTLAND, OREGON

RELATED TO

CITY OF PORTLAND, OREGON

$193,510,000
First Lien Sewer System Revenue Refunding Bonds
2007 Series A

INTRODUCTION

The purpose of this Official Statement is to set forth certain information concerning the City of Portland, Oregon (the "City"), the municipally-owned sewer and stormwater drainage system of the City (the "System" or "Sewer System"), and the City's First Lien Sewer System Revenue Refunding Bonds, 2007 Series A (the "2007 Series A Bonds") dated as of the Date of Delivery.

The 2007 Series A Bonds are secured by a first lien on, and are payable solely from, the Net Revenues and amounts required to be deposited in the Debt Service Account and Reserve Account as provided in City Ordinance No. 160276, as amended, supplemented and clarified by subsequent ordinances (the "First Lien Bond Ordinance"). The 2007 Series A Bonds are issued on parity with outstanding obligations and future borrowings issued under the First Lien Bond Ordinance (collectively referred to herein as the "First Lien Bonds").

The 2007 Series A Bonds will be sold in accordance with City Ordinance No. 180767 (the "Ordinance") adopted by the City Council on February 21, 2007. The Ordinance authorizes the Debt Manager to execute one or more 2007 Series A Bond declarations to specify the terms under which the 2007 Series A Bonds are issued and the administrative provisions that apply to the 2007 Series A Bonds, and to provide any covenants that apply to the 2007 Series A Bonds that are not contained in the First Lien Bond Ordinance or the Ordinance.

The body of this Official Statement briefly summarizes many of the provisions of the First Lien Bond Ordinance and does not purport to be complete. Reference is made to Appendix A (Summary of Principal Provisions of the First Lien Bond Ordinance).

THE 2007 SERIES A BONDS

DESCRIPTION

The 2007 Series A Bonds are special obligations of the City, payable solely from the Net Revenues of the City's Sewer System and certain dedicated accounts, as more fully described herein. The 2007 Series A Bonds do not constitute a general obligation of the City, and neither the full faith and credit nor the taxing power of the City is pledged for payment of principal of, or premium, if any, or interest on the 2007 Series A Bonds. No recourse may be had against any funds or assets of the City (other than the Net Revenues of the Sewer System and the dedicated accounts) to enforce payment of any amounts owing under or with respect to the 2007 Series A Bonds.

AUTHORIZATION AND PURPOSE

The 2007 Series A Bonds are being issued pursuant to Oregon statutes which authorize the City to refund its outstanding bonds and are authorized by the Ordinance. The 2007 Series A are being issued to refund certain maturities of the Outstanding Sewer System Revenue Refunding Bonds, 1997 Series A (the "1997 Series A Bonds"). Proceeds of the 2007 Series A Bonds also will be used to pay the premium for a municipal bond debt service reserve insurance policy, and to pay other costs of issuance. (See "ESTIMATED SOURCES AND USES OF BOND PROCEEDS" herein.)

FORM

The 2007 Series A Bonds will be issued in fully-registered book-entry only form without coupons in denominations of $5,000 or integral multiples thereof. The 2007 Series A Bonds will be issued subject to the BEO System of registration, transfer and payment operated by The Depository Trust Company, New York, New York ("DTC"), and will be subject in all respects to the rules, regulations and agreements pertaining to such BEO System. In accordance with the BEO System, the 2007 Series A Bonds, when executed and delivered, will be registered in the name of Cede & Co., as registered owner and nominee for DTC. One fully-registered bond certificate will be issued for each maturity of the 2007 Series A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

Purchasers of the 2007 Series A Bonds who are the Beneficial Owners thereof will not receive certificates evidencing their ownership interests in the 2007 Series A Bonds. While Cede & Co. is the registered owner of the 2007 Series A Bonds (in such capacity, the "Owner") as nominee of DTC, it shall be treated in all respects as the sole Owner of the 2007 Series A Bonds and shall have the right to exercise (in lieu of the Beneficial Owners of the 2007 Series A Bonds) all rights as Owner, including but not limited to the right to give consents, the right to receive notices (including notices of redemption), and other rights conferred on owners of the 2007 Series A Bonds under the Ordinance or applicable law. So long as the 2007 Series A Bonds are subject to the BEO System, all registrations and transfers of beneficial ownership of the 2007 Series A Bonds will be made only through the BEO System. (See Appendix E for a discussion of the BEO System.)

MATURITY AND PAYMENT

The 2007 Series A Bonds mature on June 1 of the years and in the aggregate principal amounts set forth on the inside cover page of this Official Statement and will bear interest from the Date of Delivery. Accrued and unpaid interest on the 2007 Series A Bonds will be due and payable semiannually on June 1 and December 1 of each year, commencing June 1, 2007.

So long as the 2007 Series A Bonds are subject to the BEO System, all payments of the principal of and interest on the 2007 Series A Bonds shall be remitted by the Registrar and Paying Agent, currently U.S. Bank National Association (the "Paying Agent") directly to DTC. DTC, in turn, will be required to distribute such payments to DTC Participants, and the DTC Participants will be responsible for ultimate distribution of such payments to the Beneficial Owners of the 2007 Series A Bonds. The City has no responsibility for the distribution of any payments on the 2007 Series A Bonds by DTC to any DTC Participant or by any DTC Participant to any Beneficial Owner, and shall have no liability whatsoever in the event of any failure by DTC or a DTC Participant to make any such distribution. See "BOOK-ENTRY SYSTEM" in Appendix E herein.

OPTIONAL REDEMPTION

The 2007 Series A Bonds are not subject to optional redemption prior to maturity.

REFUNDING PLAN

A portion of the proceeds of the 2007 Series A Bonds will be placed in an irrevocable escrow fund to be held by U.S. Bank National Association (the "Escrow Agent") and invested in United States Government obligations maturing in amounts sufficient to pay the principal of, interest on, and any redemption premium on the 1997 Series A Bonds. The accuracy of the mathematical computations will be verified by Grant Thornton LLP.

The following table lists the outstanding bonds and maturities to be refunded with the proceeds of the 2007 Series A Bonds.

Table 1
CITY OF PORTLAND, OREGON
Refunding Plan for Outstanding Sewer System Revenue Refunding Bonds, 1997 Series A

CUSIP No. 736742	Refunded Maturity	Principal Amount	Redemption Date	Redemption Price
FM4	6/1/2008	$17,215,000	6/1/2007	100.00%
FN2	6/1/2009	18,080,000	6/1/2007	100.00%
FP7	6/1/2010	18,980,000	6/1/2007	100.00%
FQ5	6/1/2011	27,695,000	6/1/2007	100.00%
FR3	6/1/2012	29,080,000	6/1/2007	100.00%
FS1	6/1/2013	30,530,000	6/1/2007	100.00%
FT9	6/1/2014	32,055,000	6/1/2007	100.00%
FU6	6/1/2015	33,665,000	6/1/2007	100.00%
		$207,300,000		

Source: City of Portland.

ESTIMATED SOURCES AND USES OF BOND PROCEEDS

The anticipated uses of proceeds from the 2007 Series A Bonds are itemized in the following table:

Table 2
CITY OF PORTLAND, OREGON
Estimated Sources and Uses of 2007 Series A Bond Proceeds

	2007 Series A
Sources of Funds	
Par amount of bonds	$193,510,000.00
Original issue premium	12,009,938.30
Cash contribution	5,200,000.00
TOTAL SOURCES	$210,719,938.30
Uses of Funds	
Deposit to refunding escrow	$209,951,891.35
Underwriter's discount	124,966.94
Costs of issuance (1)	643,080.01
TOTAL USES	$210,719,938.30

Notes:

(1) Includes costs of bond insurance premium and surety bond premium.

Source: City of Portland.

The following table presents the debt service on the 2007 Series A Bonds.

Table 3
CITY OF PORTLAND, OREGON
Debt Service on the 2007 Series A Bonds

Fiscal Year Ending June 30	Principal	Interest	Total
2007	$710,000	$2,230,740	$2,940,740
2008	15,700,000	9,640,000	25,340,000
2009	16,480,000	8,855,000	25,335,000
2010	17,310,000	8,031,000	25,341,000
2011	25,940,000	7,165,500	33,105,500
2012	27,230,000	5,868,500	33,098,500
2013	28,590,000	4,507,000	33,097,000
2014	30,020,000	3,077,500	33,097,500
2015	31,530,000	1,576,500	33,106,500
Total	$193,510,000	$50,951,740	$244,461,740

Source: City of Portland.

PROVISIONS OF THE 2007 SERIES A BONDS

The purpose of this section of this Official Statement is to set forth certain information concerning the City's 2007 Series A Bonds. The 2007 Series A Bonds are First Lien Bonds issued under the First Lien Bond Ordinance. See APPENDIX A herein for the principal provisions of the First Lien Bond Ordinance and definitions of terms used in relation to the 2007 Series A Bonds.

The body of this section of this Official Statement only contains a summary of the provisions of the First Lien Bond Ordinance; to understand the terms of that document, readers must review the entire document, a copy of which is attached as APPENDIX A. The final documents related to the 2007 Series A Bonds will have the interest rates, payment, defeasance, and other terms of the 2007 Series A Bonds added after the 2007 Series A Bonds are sold. If the 2007 Series A Bonds are sold with bond insurance or a reserve equivalent, the supplemental declaration issued with respect to the 2007 Series A Bonds may be amended with the consent of the bond insurer and without consent of the owners of the 2007 Series A Bonds, and the supplemental declaration may also have other provisions added at the request of the insurer or reserve equivalent provider of the 2007 Series A Bonds.

SPECIAL OBLIGATION; PLEDGE OF NET REVENUES

The 2007 Series A Bonds are special obligations of the City secured by a first pledge of and lien on, and payable solely from, the Net Revenues of the Sewer System on an equal and ratable (parity) basis with the Outstanding Parity Obligations issued pursuant to the First Lien Bond Ordinance and any additional Parity Obligations that may hereafter be issued pursuant to the First Lien Bond Ordinance.

The 2007 Series A Bonds do not constitute general obligations of the City, and neither the full faith and credit nor the taxing powers of the City is pledged for the payment of the principal of, premium (if any) or interest on the 2007 Series A Bonds. No recourse may be had against any funds or assets of the City (other than the Net Revenues of the System) to enforce payment of any amounts owing under or with respect to the 2007 Series A Bonds.

Under ORS 288.594, if a municipality is authorized by statute, or municipal charter to pledge its revenues, the pledge is valid and binding from the time the pledge is made, the revenues so pledged are immediately subject to the lien of such pledge without physical delivery, filing or other act, and the lien of such pledge is superior to all other claims and liens of any kind whatsoever.

FIRST LIEN BOND RATE COVENANT

The City covenants for the benefit of the owners of the First Lien Bonds, including the 2007 Series A Bonds, that it will authorize, bill and collect fees and charges for the use of the Sewer System and operate the Sewer System so as to produce Gross Revenues in such amounts that, after the funding of Operating Expenses for each fiscal year in amounts sufficient to allow the City to be in compliance with its covenants, standards and requirements relating to the operation and maintenance of the Sewer System, at least meet the following requirements:

- Net Revenues (without adjustment for payments to or withdrawals from the Rate Stabilization Fund) in each fiscal year are projected to be at least equal to the sum of all payments due under any Reserve Equivalent, plus all debt service due on outstanding First Lien Bonds (including the proposed 2007 Series A Bonds) in that fiscal year; and

- Net Revenues (after adjustments for payments to and withdrawals from the Rate Stabilization Fund) in each fiscal year are projected to be at least equal to the sum of all payments due under any Reserve Equivalent, plus 1.20 times the debt service due on all outstanding First Lien Bonds (including the proposed 2007 Series A Bonds) in that fiscal year. See "RATE STABLIZATION FUND" below.

If Net Revenues in a fiscal year are insufficient to meet the requirements of the Rate Covenant, the City has covenanted with the owners of the 2007 Series A Bonds to increase its fees such that the Net Revenues are projected to meet the required level.

FUNDS AND ACCOUNTS

The City covenants to deposit the Gross Revenues in the Sewage Disposal Fund.

The First Lien Bond Ordinance establishes the Redemption Fund in the Sewage Disposal Fund. The Redemption Fund includes the following accounts:

- **Debt Service Account.** Amounts in the Debt Service Account shall be used only to pay debt service on First Lien Bonds.

- **Reserve Account.** Amounts in the Reserve Account shall be used only to pay principal and interest on First Lien Bonds, and only in the event that money in the Debt Service Account is not sufficient to pay principal and interest when due.

The Master Second Lien Bond Declaration establishes the following accounts in the Sewage Disposal Fund:

- **Second Lien Bond Account**. Amounts in the Second Lien Bond Account shall be used only to pay Second Lien Bonds.

- **Second Lien Bond Reserve Account**. Amounts credited to the Second Lien Bond Reserve Account shall be used only to pay Second Lien Bonds, and only if amounts in the Second Lien Bond Account and Net Revenues credited to other accounts in the Sewage Disposal Fund are insufficient.

- **Subordinate Obligations Account**. Amounts in this account may be used to pay Subordinate Obligations, if any.

Additionally, the Rate Stabilization Fund is created by the First Lien Bond Ordinance. Net Revenues may be transferred to the Rate Stabilization Fund at the option of the City as permitted by the First Lien Bond ordinance and the Master Second Lien Bond Declaration, and may be withdrawn at any time and used for any purpose for which the Gross Revenues may be used. (See "RATE STABILIZATION FUND" below.)

APPLICATION OF GROSS REVENUES

As long as any 2007 Series A Bonds remain issued and outstanding, the First Lien Bond Ordinance and the Master Second Lien Bond Declaration provide that Gross Revenues shall be used solely to pay the following amounts in the following order of priority:

1. To pay Operating Expenses of the Sewer System which are then due (other than payments to the Rate Stabilization Fund) and any rebate of earnings on nonpurpose obligations in which the gross proceeds of First Lien Bonds are invested which is required to be paid under Section 148(f) of the Internal Revenue Code of 1986, as amended;

2. To make payments to the First Lien Bond Debt Service Account in an amount sufficient to make timely payment of all First Lien Bond principal and interest when due, as required by Section 1.G.(2) of the First Lien Bond Ordinance;

3. To make any payment required under a Reserve Equivalent as required by the First Lien Bond Ordinance, including any amounts due under a financial guaranty or other agreement executed in connection therewith;

4. To make payments to the First Lien Bond Reserve Account in accordance with a schedule specified Section 1.G.(3)(ii) of the First Lien Bond Ordinance;

5. To pay bonds secured by a subordinate pledge of and lien on the Net Revenues of the Sewer System and any other costs or expenses relating to the Sewer System, and

6. After all transfers and payments having a higher priority under this Section have been made, Net Revenues shall be applied to any franchise fees and similar charges imposed by the City on the Sewer System or its operations.

7. On any date, the City may transfer Net Revenues to the Rate Stabilization Fund or spend Net Revenues for any other lawful purpose, but only if all deposits and payments having a higher priority under this Section have been made.

RATE STABILIZATION FUND

Under the First Lien Bond Ordinance, the City has established the Sewer System Rate Stabilization Fund. Amounts may be transferred to the Sewer System Rate Stabilization Fund from Gross Revenues of the Sewer System at any time. The City has established a practice of annually budgeting specific amounts of deposits to and withdrawals from the Sewer System Rate Stabilization Fund and to make such transfers and withdrawals during the current fiscal year based on Sewer System financial performance. It is the intent of the City to use such deposits and withdrawals to smooth the flow of Net Revenues of the Sewer System on a year to year basis to minimize the size of required Sewer System rate increases in each year. For purposes of calculating Net Revenues, deposits into the Rate Stabilization Fund are treated as Operating Expenses in the year in which they are deposited, and withdrawals from the Rate Stabilization Fund are treated as Gross Revenues in the year in which they are withdrawn. (See "PROJECTED REVENUES AND EXPENDITURES -- USE OF RATE STABILIZATION FUND" herein.)

RESERVE ACCOUNT FOR FIRST LIEN BONDS

The 2007 Series A Bonds are additionally secured by a pledge of the City to maintain the Reserve Account at a level equal to the Required Reserve (as defined in the First Lien Bond Ordinance) which is the lesser of the maximum annual debt service on all Outstanding Parity Obligations determined as of the date of issuance of any additional Parity Obligations, 125 percent of the average annual debt service on the Outstanding Parity Obligations, or ten percent of the proceeds of all series of sewer system revenue bonds any portion of which is outstanding. Reserve Equivalents are treated as deposits in the Reserve Account. Reserve Equivalents include insurance policies or letters of credit issued respectively by a municipal bond insurance company or a commercial bank. If the balance in the Reserve Account falls below the Required Reserve, the City pledges that the balance will be replenished from Net Revenues in proportionate monthly payments so that the Required Reserve is reestablished within twelve months from the date of any deficiency. The City has previously acquired reserve fund surety bonds qualifying as Reserve Equivalents under the First Lien Bond Ordinance and the related Supplemental Ordinances for each of its previous issues of the Outstanding Parity Obligations. The available amount under each of these Reserve Equivalents is in an amount sufficient to meet the Required Reserve for the issue of Outstanding Parity Obligations to which such Reserve Equivalent relates.

Reserve Equivalent for the 2007 Series A Bonds

Application has been made to the MBIA Insurance Corporation (the "Insurer") for a commitment to issue a surety bond (the "2007 Series A Debt Service Reserve Fund Surety Bond"). The 2007 Series A Debt Service Reserve Fund Surety Bond will provide that upon notice from the Paying Agent to the Insurer to the effect that insufficient amounts are on deposit in the First Lien Bond Debt Service Account to pay the principal of (at maturity or pursuant to mandatory redemption requirements) and interest on the 2007 Series A Bonds, the Insurer will promptly deposit with the Paying Agent an amount sufficient to pay the principal of and interest on the 2007 Series A Bonds or the available amount of the 2007 Series A Debt Service Reserve Fund Surety Bond, whichever is less. Upon the later of: (i) three (3) days after receipt by the Insurer of a Demand for Payment in the form attached to 2007 Series A Debt Service Reserve Fund Surety Bond, duly executed by the Paying Agent; or (ii) the payment date of the 2007 Series A Bonds as specified in the Demand for Payment presented by the Paying Agent to the Insurer, the Insurer will make a deposit of funds in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment to the Paying Agent, of amounts which are then due to the Paying Agent (as specified in the Demand for Payment) subject to the Surety Bond Coverage.

The available amount of the 2007 Series A Debt Service Reserve Fund Surety Bond is the initial face amount of the 2007 Series A Debt Service Reserve Fund Surety Bond less the amount of any previous deposits by the Insurer with the Paying Agent which have not been reimbursed by the City. The City and the Insurer have entered into a Financial Guaranty Agreement in connection with the 2007 Series A Bonds (the "Agreement"). Pursuant to the Agreement, the City is required to reimburse the Insurer, within one year of any deposit, the amount of such deposit made by the Insurer with the Paying Agent under the 2007 Series A Debt Service Reserve Fund Surety Bond. Such reimbursement shall be made only after all required payments for Operating Expenses and payments to the First Lien Bond Debt Service Account have been made.

Under the terms of the Agreement, the Paying Agent is required to reimburse the Insurer, with interest, until the face amount of the 2007 Series A Debt Service Reserve Fund Surety Bond is reinstated before any deposit is made to the Second Lien Bond Account or any account having a lower priority for allocation of Gross Revenues (see "APPLICATION OF GROSS REVENUES," above). The 2007 Series A Debt Service Reserve Fund Surety Bond will be held by the Paying Agent in the First Lien Bond Reserve Account and is provided as an alternative to the City depositing funds equal to the Required Reserve for outstanding 2007 Series A Bonds. The 2007 Series A Debt Service Reserve Fund Surety Bond will be issued in the face amount equal to the Required Reserve for the 2007 Series A Bonds and the premium therefor will be fully paid by the City at the time of delivery of the 2007 Series A Bonds.

THE MBIA INSURANCE CORPORATION INSURANCE POLICY

The scheduled payment of principal and interest on the 2007 Series A Bonds maturing on June 1, 2011, June 1, 2012, June 1, 2013, June 1, 2014, and June 1, 2015, (collectively the "2007 Series A Insured Bonds") when due will be guaranteed by an insurance policy to be issued concurrently with the delivery of the 2007 Series A Bonds by MBIA Insurance Corporation.

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to Appendix F for a specimen of MBIA's policy (the "Policy").

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Policy and MBIA set

forth under the heading "THE MBIA INSURANCE CORPORATION INSURANCE POLICY". Additionally, MBIA makes no representation regarding the 2007 Series A Bonds or the advisability of investing in the 2007 Series A Bonds.

The MBIA Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the City to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the 2007 Series A Insured Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the MBIA Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the 2007 Series A Insured Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any 2007 Series A Insured Bonds. MBIA's Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of 2007 Series A Insured Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's Policy also does not insure against nonpayment of principal of or interest on the 2007 Series A Insured Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the 2007 Series A Insured Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a 2007 Series A Insured Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such 2007 Series A Insured Bonds or presentment of such other proof of ownership of the 2007 Series A Insured Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the 2007 Series A Insured Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the 2007 Series A Insured Bonds in any legal proceeding related to payment of insured amounts on the 2007 Series A Insured Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such 2007 Series A Insured Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA INSURANCE CORPORATION

MBIA Insurance Corporation ("MBIA") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc., rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the 2007 Series A Insured Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the 2007 Series A Insured Bonds. MBIA does not guaranty the market price of the 2007 Series A Insured Bonds nor does it guaranty that the ratings on the 2007 Series A Insured Bonds will not be revised or withdrawn.

MBIA Financial Information

As of December 31, 2005, MBIA had admitted assets of $11.0 billion (audited), total liabilities of $7.2 billion (audited), and total capital and surplus of $3.8 billion (audited), each as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2006, MBIA had admitted assets of $11.5 billion (unaudited), total liabilities of $7.0 billion (unaudited), and total capital and surplus of $4.4 billion (unaudited), each as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2005 and December 31, 2004 and for each of the three years in the period ended December 31, 2005, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2005 and the consolidated financial statements of MBIA and its subsidiaries as of September 30, 2006 and for the nine month periods ended September 30, 2006 and September 30, 2005 included in the Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2006, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at http://www.mbia.com and at no cost, upon request to MBIA at its principal executive offices.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated by reference into this Official Statement:

The Company's Annual Report on Form 10-K for the year ended December 31, 2005; and

The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the 2007 Series A Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2005, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2006, June 30, 2006 and September 30, 2006 are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington, D.C.; (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA at its principal executive offices.

FIRST LIEN PARITY OBLIGATIONS

The First Lien Bond Ordinance permits the City to issue additional Parity Obligations to provide funds for any purpose relating to the Sewer System which is authorized by law, including, but not limited to, financing the construction of new wastewater facilities, repairing and improving existing wastewater facilities, or refunding outstanding bonds. All additional Parity Obligations issued in accordance with the terms and conditions of the First Lien Bond Ordinance will be secured by a first lien on, and will be payable out of, the Net Revenues of the System on an equal and ratable (parity) basis with the 2007 Series A Bonds and the Outstanding Parity Obligations heretofore issued. Among others, the First Lien Bond Ordinance imposes the following conditions that must be met prior to the issuance of any additional Parity Obligations.

The City shall cause to be filed with the City Auditor a certificate of a qualified engineering, auditing or other consulting firm experienced in the preparation or review of financial forecasts and reports of municipal utility operations, to the effect that both:

1. the Net Revenues (without regard to payments to or withdrawals from the Rate Stabilization Fund) for 12 consecutive months during the 18 months preceding the issuance of the proposed Parity Obligations are not less than 1.00 times maximum annual debt service on all Outstanding First Lien Bonds and the proposed Parity Obligations; and

2. the Net Revenues, as projected for each of the next ensuing three fiscal years (including any planned rate increases which may be considered under the provisions of Section 1.L of the First Lien Bond Ordinance) are not less than 1.20 times the sum of: Actual Debt Service on all Outstanding First Lien Bonds in each respective fiscal year; plus, average annual debt service on the proposed Parity Obligations.

For purposes of (1) above, Net Revenues for the 12 month period in question may be adjusted to take account of any rate increases that have been adopted by the City prior to the issuance of the additional Parity Obligations in question as if such rate increases had been in effect throughout such 12 month period. Any proposed rate increases included in the calculation of Net Revenues for purposes of this additional Parity Obligations test under (1) above need not be in effect when the additional Parity Obligations are issued if the City Council has taken action to formally adopt such proposed rate increases.

The City may issue Parity Obligations to refund Outstanding Parity Obligations without delivering the certificate described above, or meeting certain other general requirements for the issuance of additional Parity Obligations, if the debt service on the Parity Obligations does not exceed the debt service on the refunded Parity Obligations in any year by more than $5,000.

SECOND LIEN SEWER SYSTEM REVENUE BONDS AND OTHER SUBORDINATE OBLIGATIONS

The City has issued Second Lien Bonds. As of February 1, 2007, a total of $308,125,000 of Second Lien Bonds were Outstanding. The City also has issued other subordinate obligations, which are outstanding in the amount of $14,275,110 as of February 1, 2007.

The First Lien Bond Ordinance does not limit the amount of bonds, notes or other obligations that the City may issue with a lien on and pledge of Net Revenues that is subordinate to the First Lien Bonds.

OTHER COVENANTS

The City covenants that it will:

1. Promptly cause the principal, premium, if any, and interest on the First Lien Bonds to be paid as they become due in accordance with the provisions of the First Lien Bond Ordinance and any Supplemental Declarations.

2. Maintain complete books and records relating to the operation of the Sewer System and all City funds and accounts in accordance with generally accepted accounting principles, shall cause such books and records to be audited annually at the end of each Fiscal Year, and shall have an audit report prepared by the Auditor and made available for the inspection of the First Lien Bond Owners.

3. For the benefit of the Owners of the First Lien Bonds, not issue obligations having a claim that is superior to the claim of the First Lien Bonds upon the Net Revenues, except as provided in the First Lien Bond Ordinance.

4. Not amend the First Lien Bond Ordinance in any way that materially and adversely affects the rights of the Owners of Second Lien Bonds; however, this covenant shall not be construed to limit the ability of the City to issue First Lien Bonds pursuant to the provisions of the First Lien Bond Ordinance.

5. Promptly deposit the Gross Revenues and other amounts into the funds and accounts as required by the First Lien Bond Ordinance.

6. Cause the Sewer System to be operated at all times in a safe, sound, efficient and economic manner in compliance with all health, safety and environmental laws, regulatory body rules, regulatory body orders and court orders applicable to the City's operation and ownership of the Sewer System.

7. Maintain the Sewer System in good repair, working order and condition.

8. Not enter into any agreement to provide Sewer System products or services at a discount from published rate schedules, and that it will not provide free Sewer System products or services except in case of emergencies.

9. For the benefit of the Owners of the First Lien Bonds, maintain insurance, or a reasonable system of self insurance, appropriate to the risks associated with operation of the Sewer System.

10. Not sell, mortgage, lease or otherwise dispose of or encumber all or any portion of the Sewer System except as specifically permitted by the First Lien Bond Ordinance.

THE SEWER SYSTEM

The City owns, operates and maintains the sanitary and stormwater collection, transportation, and treatment systems within its boundaries. The service area is located on both sides of the Willamette River, extending approximately 20 miles south of its confluence with the Columbia River. It is generally bounded on the west by low-lying hills paralleling the Willamette River, by other service areas serving the City metropolitan area to the south, by the City of Gresham to the east, and by the Columbia River to the north. The City provides sanitary sewer service to approximately 563,000 people, numerous commercial and industrial facilities, and several wholesale contract customers located adjacent to the City. The following table provides an overview of the Sewer System characteristics:

Table 4
CITY OF PORTLAND, OREGON
Sewer System Characteristics

Service Area (acres)	
In City	96,000
Outside City (wholesale)	9,000
Population Served	563,000
Piping in Sewer System (miles)	2,295
Pumping Stations	94
Treatment Capacity (millions of gallons per day)	108.3

Source: Bureau of Environmental Services.

The City's earliest sewers were installed in 1860 to provide storm and sanitary sewer service to the early settlement along the Willamette River. Prior to 1947, additions to the storm and sanitary sewage collection system were constructed as combined sewers with untreated wastes discharged to the Willamette River and Columbia Slough. In 1947, construction began on a system designed to intercept the entire sanitary portion of the combined sewage and transport it to a new treatment plant. With construction of these first intercepting lines and a primary treatment plant on Columbia Boulevard, the City began treating its wastewater. Sewage treatment capacity was further expanded in 1964 with the construction of a treatment plant in the City of Lake Oswego, called the Tryon Creek sewage treatment plant, to provide secondary treatment to the City's southwest area and, on a wholesale contract basis, to the City of Lake Oswego.

SANITARY AND STORM COLLECTION SYSTEM

Collection sewers transport wastewater from the receiving point (the curb line) to the point of discharge into the interceptor sewers. Collection sewers comprise most of the footage and economic value of the Sewer System, fronting on most of the property in the City. Older collection sewers carry both storm and sanitary sewage and comprise approximately 860 miles of the system. Collection sewers constructed since 1960 carry sanitary wastes only. The collection system is inspected through the use of closed-circuit TV cameras and cleaned on a routine basis. Sewer System maintenance and repair projects are scheduled according to the results of the inspection program.

The City's storm drainage responsibility is divided into 18 drainage basins. Most of the drainage basins located within the west side of the City flow directly into the Willamette River, with the exception of Fanno Creek and its tributary basins, which flow west out of the City, eventually discharging to the Tualatin River in adjacent Washington County.

The basins in North and Northeast Portland typically drain to the Columbia and Willamette Rivers. Some of these basins have highly permeable soils, however, and stormwater in these locations drains to Underground Injection Controls ("UICs") or ponds on the surface and slowly percolates through the ground to underlying soils. Note that a UIC is also known as a sump. While UICs can be used for more than stormwater runoff, in the City's system, UICs are referred to as drains, or sumps which dissipate stormwater into subsurface soil. Water enters through a grate at the surface and drains into the surrounding soil through drain holes. Most of the storm runoff in Southeast Portland drains to the Johnson Creek basin, which is the largest basin in the City's Urban Services Boundary, covering an area of approximately 54 square miles.

INTERCEPTOR AND PUMP STATION SYSTEM

Large interceptor sewers, generally paralleling the Willamette River on the east and west, and extending along the south side of the Columbia Slough, are the major sewage-carrying conduits in the Sewer System. Sewer diversions are located at the intersections of

combined trunk sewers and interceptor sewers. These diversions were designed with the capacity to direct approximately three times the average dry weather combined sewer flow into the interceptor system. During rainfall, when combined sewage flow exceeds three times the average dry weather flow, a portion of the sewage flow bypasses the diversion structures and discharges to the Columbia Slough Consolidation Conduit (in the Columbia Slough Watershed) or to the Westside Willamette Combined Sewage Overflow ("CSO") Tunnel. Diversions will continue to overflow directly to the Willamette River on the Eastside Willamette system until 2011 when they will be captured by the Eastside Willamette CSO Tunnel. (See "REGULATORY AND LEGAL ENVIRONMENT," herein.)

Ninety-four pump stations provide service where gravity sewers cannot function because of topographic restrictions. All pumping stations are monitored remotely through telemetry connected to a central computer system in the control console room at the Columbia Boulevard Wastewater Treatment Plant ("CBWTP"), which is staffed 24 hours per day.

SEWAGE TREATMENT PLANTS

The City's two sewage treatment plants, the CBWTP and the Tryon Creek Wastewater Treatment Plant ("TCWTP") are both activated sludge, secondary treatment plants with capacities to treat 100 million gallons per day ("mgd") and 8.3 mgd, respectively. Under Oregon Administrative Rule ("OAR") 340-045-0015, a National Pollutant Discharge Elimination System ("NPDES") permit is required for the discharge of treated effluent from each treatment plant. The permits are certified by the Oregon Department of Environmental Quality ("DEQ"), and the City is in compliance with the provisions pertaining to discharge from the treatment plants. The TCWTP's current permit expires on September 30, 2009. The CBWTP discharge permit expired on October 31, 2002. The permit renewal process began with an application for renewal to DEQ approximately six months before expiration. Negotiations determine whether any changes in treatment standards or testing parameters will apply to the renewed permit. This process has taken several years; however, the City believes that the permit will be renewed. A draft of the new permit should be available for public review and comment during the spring of 2007. OAR 340-045-0040 allows the CBWTP to continue to operate under the permit that expired on October 31, 2002 during the renewal process.

Dry weather sewage flows to the wastewater treatment facilities receive primary and secondary treatment. Dry weather flows for 2006 equaled 58 mgd at the CBWTP and five mgd at the TCWTP. Annual average daily flows to both treatment facilities were 80 mgd in 2006 or 75 percent of secondary treatment capacity. Peak secondary treatment capacities at the CBWTP and the TCWTP are 120 mgd and 20 mgd, respectively. Flows in excess of this amount at CBWTP receive primary treatment and are combined with secondary effluent prior to discharge. Wet weather flows exceeding the capacity of the TCWTP are diverted to the CBWTP.

Recent projects at the CBWTP have focused on enhancing the plant's peak primary treatment capacity. These projects include replacement of the headworks, completed in 1996, and the addition of three primary clarifiers with a capacity of 120 mgd, completed in 2001. The current primary treatment capacity is 340 mgd. The primary treatment capacity will increase to 450 mgd by 2011 with the addition of a Wet Weather Screenings Facility and an additional Dry Weather Primary Clarifier. This expansion is necessary in anticipation of increased flows from the CSO control facilities. Testing of the west side CSO control facilities began in September 2006. The facilities were declared fully operational by December 1, 2006. Operation of the westside facilities will add roughly 60 million gallons ("mg") in peak wet weather flows at the CBWTP, a 22 percent increase over current peak wet weather flows. Upon completion of the east side CSO facilities, peak wet weather flows at the CBWTP will increase by another 115 mg, which represents a 64 percent increase over current levels.

The City's biosolids recycling program meets EPA and DEQ regulations. The City routinely monitors biosolids quality and land application practices and impacts to demonstrate both regulatory compliance and the benefits resulting from solids recycling. Biosolids land application at Madison Farm in north central Oregon has been the major focus of the City's biosolids management program since 1990.

The City manages industrial discharges to the sanitary Sewer System in order to protect the Publicly Owned Treatment Works ("POTW"), protect the sewage and collection systems, protect the health and safety of the POTW workers, prevent POTW interference and pass through, prevent non-compliance of the City's NPDES permits, and protect the receiving waters. There are currently 160 industries operating under City discharge permits, and compliance files are maintained on approximately 450 industrial users. Periodically, through its ongoing monitoring program, the City may detect discharges to the System that exceed established standards. In these cases, the City initiates a process of notification and enforcement requiring the industry to regain compliance. Lack of compliance by the offending industry can lead to imposition of fines or ultimately to the plugging of the industry's service lateral. The City Code also allows recovery of any damages to the Sewer System that result from impermissible discharges. Ninety-nine percent of permittees are in compliance.

THE BUREAU OF ENVIRONMENTAL SERVICES

BUREAU ORGANIZATION

The Bureau of Environmental Services (the "Bureau") is headed by a director who reports to the Commissioner of Public Utilities. The Bureau is responsible for the Sewer System's operation, maintenance and capital construction. The Bureau is organized into six groups: the Office of the Director, the Business Services Group, the Wastewater Group, the Watershed Group, the Engineering Services Group, and Pollution Prevention Services Group. At times, consultants are employed for specific projects, which require expertise or staffing beyond the Bureau's capability. Certain administrative functions and Sewer System maintenance are provided by other City departments and bureaus on a reimbursable basis. The total budgeted staffing complement for the Bureau in FY 2006-07 stands at 485 full time equivalent employees ("FTEs") distributed as follows:

- Office of the Director - 16 FTEs
- Business Services Group - 49 FTEs
- Wastewater Group - 137 FTEs
- Watershed Services Group - 47 FTEs
- Engineering Services Group - 164 FTEs
- Pollution Prevention Services Group - 72 FTEs

Responsibility for overall management of the Sewer System and environmental policy planning resides in the Office of the Director. The organization chart in Figure 1 shows how the Bureau operations are assigned to the various groups.

Office of the Director

The Office of the Director provides policy direction for all Bureau programs, coordinates the activities of the Bureau's five operating groups, and assures timely and appropriate responses to the public, the ratepayers, and the regulatory agencies. The Office of the Director works closely with other City bureaus and government agencies to develop recommendations for policy and for review by the City Council about environmental issues. The Office of the Director includes public information and public involvement. It also coordinates the City's participation in the Portland Harbor Superfund process, an ongoing investigation of sediment contamination and design and implementation of a cleanup process for a recently listed Superfund site in the City. (See "REGULATORY AND LEGAL ENVIRONMENT – REGULATORY REQUIREMENTS – Portland Harbor Sediments.")

Business Services Group

The Business Services Group provides and coordinates Bureau accounting, budgeting, computer, contract management, facilities management, financial, and human resources services, and assures timely and appropriate responses to the public, the ratepayers, and the regulatory agencies.

Wastewater Group

The Wastewater Group is responsible for the operation, maintenance, monitoring and administration of the City's wastewater and stormwater collection and treatment facilities and related programs. These facilities include the CBWTP and TCWTP, 94 active pumping stations, the sanitary sewage and stormwater collection system, and a wide variety of stormwater detention and treatment facilities, and also the water quality ponds, UICs, and surface drainage systems.

Watershed Services Group

The Watershed Services Group is responsible for developing a comprehensive watershed management plan covering all five of the City's urban watersheds. The Watershed Management Plan ("PWMP"): "Actions for Watershed Health – 2005 Portland Watershed Management Plan" provides for an integrated approach to meeting regulatory mandates. Watershed Services is responsible for chairing three working groups involving other bureaus to ensure that all City projects such as new streets and programs such as land use zoning and City code updates all contribute to improving watershed health. Other responsibilities include monitoring and evaluating the effectiveness of stormwater management practices, promoting and implementing sustainable site development projects and practices, developing new policies, interpreting and implementing state and federal surface and groundwater policies and regulations, and implementing projects to protect and restore watershed functions.

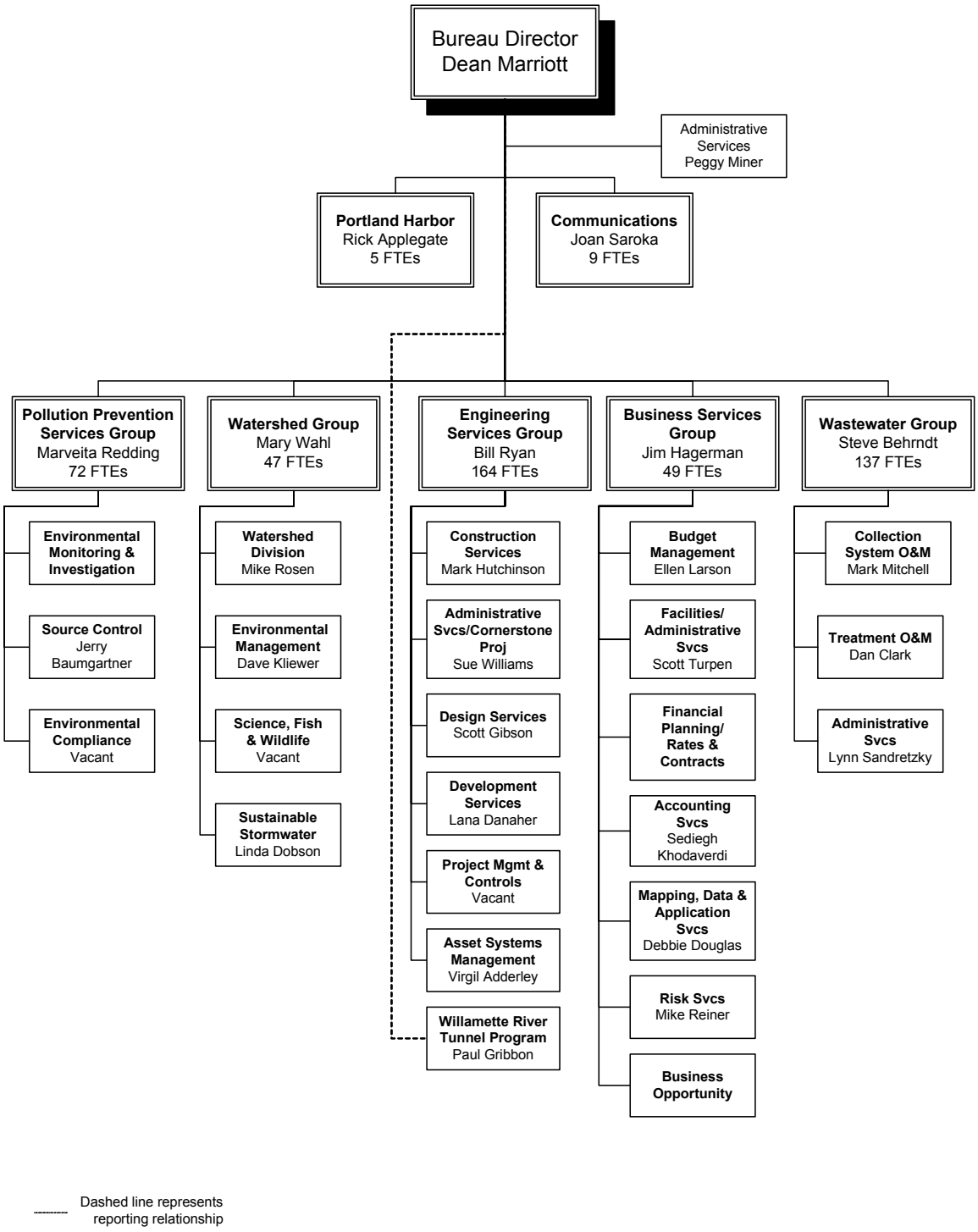
Engineering Services Group

The Engineering Services Group includes all of the Bureau's engineering activities under the direction of the Chief Engineer. This group provides project design and construction management services to the Bureau's capital programs and serves development activity through plan review and permit issuance for connection to the existing sanitary sewer system, expansion of the system, management of stormwater runoff on private property, and water quality treatment at construction sites. The group is responsible for developing the Bureau's Public Facility Plans, Capital Improvement Program ("CIP"), and managing implementation of capital projects for the sanitary and stormwater collection and treatment systems, including meeting all State Environmental Quality Commission requirements regarding the CSO program. Specific tasks in developing the CIP include collecting project proposals and information, prioritizing projects in accordance with Bureau ranking criteria, recommending annual and five year capital plans to the Bureau, and assisting in the planning process for projects in the adopted CIP.

Pollution Prevention Services Group

The Pollution Prevention Services Group has responsibility for the source control program, and provides environmental investigation and monitoring, environmental compliance, and enforcement support to other Bureau programs.

Figure 1
CITY OF PORTLAND, OREGON
Bureau of Environmental Services
Organization Chart



SERVICES PROVIDED BY OTHER CITY BUREAUS

Services provided to the Bureau by other City bureaus and offices fall into two major categories: overhead and direct. Overhead services include legal, purchasing, central accounting, personnel and payroll services, and are charged to the Bureau based on various workload indicators used to measure consumption of overhead services. FY 2006-07 costs for overhead services are budgeted at $3.9 million.

Direct services include fleet, printing, internal mail, telephone, electronic services, liability and workers' compensation insurance, and engineering related services such as survey and structural engineering services. Direct services are charged according to actual use. The most significant direct services in terms of budgeted expenditures are sewer maintenance, cleaning, and repair of sanitary and stormwater sewer systems, including the portion of street sweeping services that directly benefit the Sewer System, provided by the City's Bureau of Maintenance. FY 2006-07 costs for direct services are currently budgeted at $41.7 million. These expenditures are expected to drop by $8 million in FY 2007-08 as the Water Bureau will both bill customers and retain the revenues from the Account Service Charge for performing this service.

Payments for direct services from other City bureaus are negotiated annually in Interagency Agreements. In the event of failure to reach a satisfactory agreement, the Bureau has the authority to modify these agreements by declining to purchase some of the services provided by other bureaus, by contracting with other suppliers for some services or by internalizing some services provided by other bureaus.

UTILITY LICENSE FEE

The Bureau currently pays $12.8 million in annual utility license fees to the City's General Fund. Currently, the utility license fee is not subject to regulation by state law and may be raised at the discretion of the City Council. The fee was treated as an Operating Expense through FY 2000-01. Beginning in FY 2001-02, the Utility License Fee has been subordinated to the payment of debt service on the First Lien Bonds and Second Lien Bonds.

On September 1, 2004, the City Council voted to cap utility license fees for the water and sewer utilities at the current budgeted levels, until those levels represent five percent of utility revenues. The Bureau's budgeted utility license fee payment will therefore remain at the current budgeted amount of $12.8 million until that amount represents five percent of utility revenues. After that time, utility license fee payments may again grow, but cannot exceed five percent of utility revenues. This is not forecasted to occur until FY 2012-13.

MANAGEMENT PERSONNEL

The following are brief biographies of key Sewer System personnel.

Sam Adams, Commissioner of Public Utilities

Mr. Adams was elected to the City Council in 2004. In addition to the Bureau, he oversees the Portland Office of Transportation. Mr. Adams holds a Bachelors degree from the University of Oregon. He served as chief of staff to Mayor Vera Katz from 1992 through 2003. Mr. Adams serves on the Board of Directors for the Cascade AIDS Project and in his role as City Commissioner serves on the boards of the Portland Streetcar Inc., Joint Policy Advisory Committee on Transportation, the Bi-State Coordination Committee, the Regional Arts and Culture Council, the Portland Oregon Visitors' Association and the Kenton Business District Association.

Dean Marriott, Director, Bureau of Environmental Services

Mr. Marriott was named Director in April 1994. Prior to his appointment, he was Commissioner of Environmental Protection for the State of Maine for a period of seven years. In addition, he was Director of Planning for the largest consulting engineering firm in Maine, served as legal counsel for a landscape architecture and planning firm in Pennsylvania, and was an environmental planner for a suburban Philadelphia county planning agency. Mr. Marriott holds a Bachelor of Arts degree from the University of Delaware and a Juris Doctor degree from the Florida State University College of Law.

Jim Hagerman, Manager, Business Services Group

Mr. Hagerman has been with the Bureau of Environmental Services since 1993 and has managed the Business Services Group since July 2005. Mr. Hagerman has held various positions within the finance area, including ratemaking, financial planning, budgeting, and debt management. Prior to working with the Bureau, Mr. Hagerman was employed by the State of Oregon Public Utility Commission and Reed College. He holds a Bachelor of Science degree in Economics and Mathematics from the University of Oregon and a Ph.D. in Economics from Northwestern University.

Stephen Behrndt, Manager, Wastewater Group

Mr. Behrndt has managed the Wastewater Group since 1996. He was previously a Wastewater Group Public Works Superintendent for the Bureau from 1992 to 1996. As superintendent, he was initially responsible for all maintenance services for treatment plants and pumping stations in the Sewer System. Later, Mr. Behrndt assumed responsibility for all operations and maintenance of the facilities. He came to the City in 1990 from the City of Eugene's Water Pollution Control Facility, where he was a manager in the Maintenance Division from 1984 to 1990. Mr. Behrndt holds a Bachelor of Science degree from the University of Oregon.

Mary Wahl, Manager, Watershed Services Group

Ms. Wahl came to the Bureau in October of 2000 following 14 years with the Oregon Department of Environmental Quality, serving primarily as Administrator of the Waste Management and Cleanup Division, which combines hazardous waste management, solid waste management, and toxics cleanup. She has a Masters in Public Administration from Harvard University (Environmental Management and Economics specialties), and an undergraduate Secondary Education degree from Oregon State University.

William F. Ryan, P.E., Manager, Engineering Services Group

Mr. Ryan was named Chief Engineer in May 2004. He is responsible for managing and developing the Bureau's CIP and providing CIP design and construction services to the Bureau. Mr. Ryan has over 20 years of engineering experience, with the last 12 devoted to public works. He was the Bureau's Construction Manager from 1999 to 2004. Mr. Ryan is a registered civil and environmental engineer in Oregon. He holds a Master of Science degree in Civil Engineering from the University of Florida.

Marveita Redding, Manager, Pollution Prevention Services Group

Ms. Redding has been with the Bureau of Environmental Services since 1990 and was appointed the Manager of the Pollution Prevention Services Group in January 2007. From November 2005 until January 2007, she was Interim Manager, Pollution Prevention Services Group. From 1990 until November 2005, she was the Environmental Compliance Manager for the Bureau with responsibilities for the Bureau's compliance with federal, state and local environmental programs. She also headed up the Spill Protection and Citizen Response unit, the Brownfields Program and the Consolidated Site Assessment Program. She came to the City from the State of Oregon, Department of Agriculture where she served as the Executive Assistant to the Director. Ms. Redding holds a Bachelor of Arts degree from Pacific Union College and a Juris Doctor degree from the University of California, Hastings College of Law.

REGULATORY AND LEGAL ENVIRONMENT

The City is subject to environmental regulations and statutes administered by DEQ and EPA. The EPA has delegated to DEQ enforcement of the EPA programs that affect the City. The City and DEQ have agreed to an Amended Stipulation and Final Order to control the water quality impacts of CSOs by 2011. Meeting these and other regulatory and statutory requirements and their associated compliance schedules will require significant investments over the next five years and will have substantial effects on sewer rates and charges. (For estimates of the impacts of these programs, refer to "CAPITAL CONSTRUCTION AND FINANCING PROGRAM – FACTORS AFFECTING SEWER SYSTEM CAPITAL INVESTMENT.")

REGULATORY CONSENT AND COMPLIANCE ORDERS

The City is subject to an array of federal and state regulations involving the protection/restoration of the environment. The federal regulations, which most often stem from public laws administered by EPA, are typically managed, monitored, and enforced by DEQ by way of delegation from EPA. State-specific regulations also are managed by DEQ. Much of the effort of the Bureau deals with programs and projects designed to respond to these regulations. Generally, the goal of such efforts is to protect human health and the physical and biological health of area watersheds, streams, and rivers.

Various City programs are intended to prevent the discharge of raw sewage, combined sewage, and concentrated storm water runoff into area streams and rivers. The City's CSO Program is the single most significant such program in terms of projected costs.

ADMINISTRATIVE ORDERS AND OTHER REGULATORY MATTERS AFFECTING THE CSO PROGRAM

Administrative Orders

DEQ has issued four administrative orders since 1991 relating to the discharge of raw sewage and CSOs from the combined sewer portion of the collection system. Two of the orders concerned dry weather overflows from the combined sewer system. The City satisfied all requirements for these orders on March 31, 1995 and October 31, 1996. The remaining two are discussed below.

Stipulation and Final Order WQ-NWR-91-75

Stipulation and Final Order WQ-NWR-91-75 (the "SFO") was entered into between the City and DEQ on August 5, 1991. Under the terms of the SFO, the City was required to carry out necessary studies and corrective action to eliminate the discharge of untreated overflow from the combined sewer system for up to a one-in-ten-year summer storm event and for up to a one-in-five-year winter storm event. The City met all of the key milestone dates and the associated final document preparation dates in the process of satisfying the study component of the SFO.

Based on the information compiled during the study phase, it became evident that the cost to achieve the level of control in the SFO was disproportionately high for small incremental increases in benefit. This suggested that the added benefit beyond about 94 percent elimination of untreated discharges in the Willamette Basin might not be a wise investment for the community. As a result, in December 1993, the City and DEQ entered into a collaborative process to review the reasonableness of the requirements of the SFO. Two members of the State Environmental Quality Commission ("EQC"), two members of the Portland City Council, and staff of DEQ and the Bureau held several public meetings to discuss the findings of the Draft Facilities Plan, evaluate the pros and cons of alternative levels of control, and receive public testimony pertaining to the SFO. As a result of the meetings, the City requested an amendment to the SFO that would reduce the level of control in the Willamette River Basin to match the cost-effective breakpoint. The EQC approved the proposed amendment at a meeting on June 3, 1994. The result of the action was to reduce the total costs of the CSO control by approximately $400 million over the life of the project (in 1993 dollars).

Amended Stipulation and Final Order WQ-NWR-91-75

Amended Stipulation and Final Order WQ-NWR-91-75 (the "ASFO"), was entered into between the City and DEQ on August 11, 1994. As noted above under SFO WQ-NWR-91-75, the ASFO is the amended version of the original CSO SFO based on the results of the collaborative process initiated in December 1993. Under the terms of the ASFO, the City is required to do the planning, design, construction, and operation necessary to eliminate the discharge of untreated overflow from the combined sewer system up to a one-in-ten year summer storm event and up to a one-in-five year winter storm event in the Columbia Slough Basin and up to a one-in-three year summer storm event and up to a four-in-one year winter storm event in the Willamette River Basin. The following key milestones are associated with the ASFO:

December 1, 1997	Submit final engineering plans and specifications for construction work to eliminate untreated discharges at 20 CSO discharge points, including all discharge points to the Columbia Slough, consistent with the approved Facilities Plan.
May 1, 1998	Begin construction work to eliminate untreated discharges at 20 CSO discharge points, including all discharge points to the Columbia Slough.
December 1, 2000	Eliminate untreated discharges at all 13 CSO discharge points to the Columbia Slough, consistent with the approved Facilities Plan.
December 1, 2001	Eliminate untreated discharges at seven CSO discharge points to the Willamette River, consistent with the approved Facilities Plan.
December 1, 2006	Eliminate untreated discharges at 16 of the remaining discharge points to the Willamette River consistent with the approved Facilities Plan.
September 1, 2010	Submit facilities plan report outlining methods for achieving further reductions in the frequencies and volumes of CSO after the term of the ASFO.
December 1, 2011	Eliminate untreated discharges at all remaining CSO discharge points consistent with the approved Facilities Plan.

The City has met or is on schedule to meet each of the above major milestones according to the requirements of the ASFO. The City began testing the Westside Willamette CSO facilities in September 2006 and declared the westside project completely operational by December 1, 2006. This was the final step in eliminating CSO discharges from 16 of the remaining Willamette River outfalls as required in the ASFO. Thus, the City's December 1, 2006, deadline was met. The City has begun building the Eastside Willamette CSO facilities and is on target to complete these facilities by December 1, 2011, thereby completing all regulatory commitments.

EPA Review of Portland CSO Program

In 2001, the Region X office of the EPA requested information from the Bureau on CSO controls, UICs, and system maintenance practices. After reviewing the Bureau's responses, the EPA sent additional letters to the Bureau outlining several concerns regarding CSO controls, the water quality implications of UICs, and sanitary sewer overflows.

The City has been working with EPA and DEQ as part of EPA's review of Portland's CSO Program. The City has hosted several workshops with EPA and DEQ staff to provide information on several items raised by EPA in their letters. Technical discussions have been ongoing to resolve any questions and concerns expressed by EPA. Additional discussion meetings will be scheduled to continue the dialogue and hopefully resolve any remaining issues. The City has been open about providing information, but has been vigorous in defending its position. The impact to operating and capital costs of any possible settlement are unknown at this time, but are not expected to materially affect forecast rates.

REGULATORY REQUIREMENTS

Water Quality Compliance

The Federal Clean Water Act ("CWA") was passed by Congress in 1972. Section 303 (d) of the CWA requires states to identify those waters "for which existing required pollution controls are not stringent enough to achieve that state's water quality standards" every two years. In 1986, the Northwest Environmental Defense Center brought suit against the EPA for not enforcing requirements of the CWA on the Tualatin River and several other surface waters within the State of Oregon. The lawsuit resulted in a consent decree under which all jurisdictions within the Tualatin Basin and the DEQ must develop and implement plans to control nutrient sources and comply with the Tualatin Basin phosphorus Total Maximum Daily Load ("TMDL"). The City has approximately 8,000 acres of land within the Tualatin River drainage basin. As a jurisdiction within the basin, the City was required to comply with the TMDL for phosphorus. The City continues with the planning, predesign, design, and implementation of various measures, including water quality facilities, to meet the Tualatin TMDL requirements applicable within the City. In 2001, DEQ revised the phosphorus TMDL and also established new TMDLs for bacteria, dissolved oxygen and temperature in the Tualatin Basin. Portland, as a jurisdiction in the basin, is required to comply with the new TMDLs and as such worked with DEQ and other designated management agencies in the basin to develop and implement TMDL Implementation Plans.

Tryon Creek is also on the 303 (d) list for temperature. DEQ finalized the Tryon temperature TMDL in 2006 as part of the Willamette River TMDL process. Tryon Creek is not on the 303 (d) list for any other parameter.

The EPA consent decree also required DEQ to develop TMDLs for ten other water quality limited stream segments, including the Columbia Slough, Johnson Creek, and other tributaries of the Willamette River located within the City. The water quality of the Columbia Slough is impacted by municipal stormwater discharges, industrial discharges, and hydraulic modifications. On December 13, 1990, DEQ issued draft TMDLs for phosphorus and bacteria in the Columbia Slough for public comment. Those draft TMDLs were not implemented at that time. On April 2, 1992, the City entered into an agreement with DEQ committing the City to a detailed study of the Columbia Slough. The agreement further required that the City comply with established load allocations and waste load allocations within ten years. In 2002, DEQ added iron and manganese in the Columbia Slough to the 303(d) list.

In response to these agreements, the City has conducted regular monitoring of in-stream water quality and flow of the Columbia Slough for several years. The data from that monitoring were used to prepare a Waterbody Assessment report in 1995. Based on that report and other information, DEQ prepared TMDLs for bacteria, dissolved oxygen, toxic pollutants and eutrophication that was approved by EPA on November 25, 1998. A temperature TMDL for the Columbia Slough was finalized in 2006 as part of the Willamette River TMDLs. Implementation of the approved TMDLs, exclusive of temperature which will have its own implementation plan, is required as part of the City's NPDES municipal stormwater permit. Early estimates on the cost of implementation range from $2.5 to $10 million over the current five-year planning period.

On October 7, 1993, the City entered into a consent order with DEQ to conduct a remedial investigation and feasibility study ("RI/FS") of contaminated sediments in the Columbia Slough. The main purposes of this study were to determine what contaminants are present and at what levels, to determine the types of risks posed, to identify elevated levels of sediment contamination, and to propose types of clean up actions. Sixteen areas of potentially high risk were identified. Sources located near these potentially high-risk areas include private outfalls, CSO (now controlled in the Columbia Slough) and stormwater outfalls, and street runoff. Sediment contaminants include pesticides (DDT/DDE, chlordane), PCBs, and heavy metals. The City started the next phase involving development of clean up options with the Buffalo Slough (a side channel of the Middle Columbia Slough in northeast Portland), one of the areas identified in the RI/FS. The City finished a feasibility study of potential cleanup options for Buffalo Slough in May 1997, and submitted it to DEQ for evaluation and approval. DEQ has not decided remedial actions for Buffalo Slough. The City also completed a more detailed risk assessment at Wapato Wetlands, and other predicted high-risk areas in the Middle and Upper Slough. With the exception of one area in the Upper Slough, where further investigations are warranted, all the remaining high priority areas showed a lower level of contamination than the screening level assessment.

The high risk areas required no further action other than long-term monitoring. The City has met all the deadlines specified in the 1993 order and is continuing work to further characterize other identified potential problem areas in the Lower Slough as well as conducting extensive source investigations and source control actions throughout the watershed. Because of the widespread but low-level contamination throughout the Slough, typical of non-point source pollution in an urban environment, the City and DEQ have developed a watershed approach to the sediment issues in the Columbia Slough which is described in the PWMP. The 1993 order has been replaced with an Intergovernmental Agreement between the City and DEQ.

Johnson Creek was placed on the 303(d) list in 1998 as water quality limited for temperature, bacteria, DDT, and dieldrin. In 2002, PCBs and polycyclic aromatic hydrocarbons were added to this list. In 2001, DEQ started preparing a TMDL for the four constituents listed in 1998. With the assistance of the U.S. Geological Survey ("USGS") and the Johnson Creek Inter-jurisdictional Committee, monitoring events were coordinated, available data was compiled, and a draft TMDL was prepared and peer reviewed. The Johnson Creek TMDL is part of the Willamette Basin TMDL finalized in 2006. The implementation of the Johnson Creek TMDLs, exclusive of the temperature TMDL which will have its own implementation plan, will be part of the City's NPDES municipal stormwater permit.

National Pollutant Discharge Elimination System Municipal Storm Sewer System Permit ("NPDES")

The City's five-year NPDES stormwater permit requires that the City and co-permittees Multnomah County and the Port of Portland implement stormwater management programs to reduce pollutant discharges "to the maximum extent practicable" from their respective municipal stormwater systems. The permit was first issued in September 1995. In February 2000, the co-permittees submitted an NPDES permit renewal to DEQ. Permit negotiations occurred in fall 2003 and the renewed permit was issued on March 8, 2004. Unlike the original permit, the renewed permit incorporates the stormwater components of TMDL implementation through a requirement to develop "benchmarks" (defined as estimated future pollutant load reductions) for EPA-approved TMDL parameters. An evaluation of storm water program effectiveness in addressing these benchmarks is also required.

In June 2004, challenges by third parties prompted DEQ to begin reconsideration of environmental aspects of the permit. As a result of that reconsideration, DEQ issued a revised permit in July 2005. In May 2006, the City and its co-permittees submitted revised Stormwater Management Plans to DEQ to implement the requirements of the permit. There are appeals to the modified permit pending before the State Land Use Board of Appeals and in Circuit Court.

The stormwater management program will impact operating programs as well as the capital program. Currently identified capital costs deemed necessary to comply with the NPDES stormwater permit are included within the Surface Water Management Capital Improvement Program. The operating costs of permit-related programs, distributed across bureaus and other City programs (for example, street sweeping) exceeds $500,000 per year and is expected to increase in future years. Capital cost impacts are approximately $5 million over the five-year forecast interval.

Underground Injection Control Water Pollution Control Facility Permit

In 1999, the adoption of new federal Safe Drinking Water rules prompted the DEQ to form a Task Force and conduct a technical review process to consider a wide variety of groundwater and stormwater issues. Proposed revisions to OAR 340-044 related to UIC rules were adopted by the EQC on June 22, 2001 and became effective September 20, 2001.

The rules define any form of discharge of municipal stormwater below ground as a Class V injection well, or UIC. As a result of this classification, the City's approximately 9,000 UICs fall under regulation by the Safe Drinking Water Act. To comply with these regulations, the City submitted to DEQ an inventory of existing UICs in December 2000, an updated inventory in December 2001 and an initial system-wide assessment in March 2002. The assessment included an estimation of land use and activities in areas drained by UICs, evaluation of groundwater elevations across the city, and best management practices for source control and operations and maintenance. In July 2002, the City filed for a Water Pollution Control Facility ("WPCF") permit to operate the UICs. The ten-year permit was issued in June 2005, and the City has developed a UIC Management Plan and updated the system-wide assessment.

Although the UIC management program has many stormwater management actions in common with the NPDES stormwater permit program, developing and implementing the new program will have additional impacts on operating programs as well as the capital program. Currently identified capital costs, such as identifying and implementing corrective actions for 400 non-compliant UICs are included within the Surface Water Management CIP. The operating costs of permit-related programs, distributed across Bureau and other City programs (for example, system assessment updates, sedimentation manhole cleaning), are forecast to be approximately $1 million in FY 2006-07, primarily for planning and program development. Implementation costs in future years will be better defined during the planning and program development stage, but are expected to remain at similar levels. Capital cost impacts are estimated to be approximately $4 million dollars over the current five-year forecast interval.

Endangered Species Act Requirements

The ESA defines a "species" to include any distinct population segment of any species of vertebrate fish or wildlife. For Pacific salmon, National Marine Fisheries Service (NOAA Fisheries) considers an Evolutionarily Significant Unit ("ESU") a "species" under the ESA. For Pacific steelhead, NOAA Fisheries has delineated Distinct Population Segments ("DPSs") for consideration as "species" under the ESA.

Updated final listing determinations for 16 salmon species were issued on June 28, 2005 (70 FR 37160), and updated final listing determinations for 10 West Coast steelhead species were issued on January 5, 2006 (71 FR 834). These include eight ESUs of salmon and five DPSs of steelhead that may use or migrate through watercourses in the Portland area. Six of the eight ESUs of salmon are listed as threatened.

The salmonids from these ESUs or DPSs use various watercourses in the Portland area, including the Columbia River, Columbia Slough, Willamette River, Johnson Creek, Tryon Creek, Fanno Creek and several other smaller westside streams. The other ESUs or DPSs of salmon and steelhead migrate past Portland on the way to and from ESU or DPS areas in the upper and middle Columbia River and Snake River. The basic requirement of the ESA is to avoid harming or harassing the listed species or adversely modifying their critical habitat (including physical, chemical, and biological modifications).

In September 2005, NOAA Fisheries issued a final rule on the designation of critical habitat for the salmon ESUs and steelhead DPSs (50 CFR Part 226). The critical habitat designations require that City projects not "adversely affect" the designated areas unless adequate mitigation is conducted. The designation is enforced as part of individual project permits.

The City adopted a comprehensive framework for developing a Portland-specific recovery plan for these species. The framework was reviewed and endorsed by independent peer reviewers. The PWMP uses this framework as its scientific foundation. The plan provides the background information and recommendations for improved watershed health that guides the City's fish protection and serves as the basis for a formal local recovery plan. The City Council has passed a resolution stating its intention to have a recovery plan reviewed and approved by the NOAA Fisheries and the U.S. Fish and Wildlife Service ("USFWS"). NOAA Fisheries and the USFWS have provided written support for the City's ongoing ESA-related activities.

The City also completed an assessment of its activities that might affect salmon or steelhead and their habitat and has implemented work plans to improve or discontinue these activities. Formal and informal negotiations with NOAA Fisheries are underway on a number of City activities, including the submission of an ESA Section 4(d) take avoidance program for critical aspects of the City's stormwater management program. The City also consults frequently on culvert replacement, streambank treatment, riparian protection zones, habitat assessment, erosion control, and monitoring and evaluation. The City's road maintenance procedures and policies and key portions of the City's integrated pest management program related to stream and riparian areas were recognized as consistent with the ESA in NOAA Fisheries' final rules.

Portland is also the only non-federal entity in the nation to have a formal agreement with NOAA Fisheries, the U.S. Army Corps of Engineers, the USFWS and a range of related state and local agencies that streamlines permit requirements associated with the ESA and the CWA. The agreement helps ensure that City capital projects that trigger ESA requirements move quickly and efficiently through the regulatory process. The U.S. Government Accountability Office highlighted the agreement in a report to Congress on implementation of the ESA.

Because recovery plans are not complete, it is unclear what the exact requirements and associated financial obligations will be from the listings. At a minimum there will be costs associated with more complicated permitting issues. At a maximum there will be additional costs from new facilities and revised operating procedures that will help address the water quality and habitat issues under the Bureau's charge. Funds for the ESA response were included in the FY 2006-07 operating budget. Because a variety of City activities affect listed species, funds for the ESA response also come from the City general fund and a range of other City bureaus. Going forward, funding for any capital projects or additional operating requirements will have to be budgeted as needs are identified.

Portland Harbor Sediments

In December 2000, the EPA listed the Willamette River Portland Harbor as a Superfund site under the federal National Priorities Listing process. EPA has the lead in overseeing the investigation of sediment contamination and the design and implementation of sediment cleanup activities. DEQ is the lead agency for evaluating and implementing source control measures for upland and adjacent land cleanup. In addition, federal, state and Tribal Natural Resource Trustees are involved in evaluating the need for restoration activities associated with natural resource damages at the site.

The Portland Harbor Superfund investigation is currently focused on a stretch of the Willamette River from River Mile 2 to River Mile 12. The City is one of the potentially responsible parties actively engaged in assessment and planning work for cleanup and restoration in this section of the river. The City's potential liabilities are associated with stormwater discharges and with two upland sites: the Water Pollution Control Laboratory site and the Linnton oil fire training ground site. The City operates stormwater or combined sewer overflow outfalls within the Portland Harbor area. The outfalls serve as conduits for stormwater draining from City owned rights-of-way and from industrial, commercial, residential, and vacant lands. When it rains, stormwater transports soil (dust, sediment, and debris), metals, oil, grease, bacteria, and chemicals to the river. These materials may impair water quality and impact Willamette River sediments.

While the impacts of stormwater flowing directly to the river are not known, DEQ and the City are cooperating to assess whether discharges from the stormwater collection system are a significant source of sediment contamination. The City is working with DEQ to identify and reduce sources of contamination that are conveyed to the Willamette River through the stormwater outfalls. Information on current and past land uses within the drainage basin of each outfall will be used to help identify potential upland sources of contaminants. This information will be used in the Superfund process over the next several years to assess the City's fiscal contribution toward cleaning up the river sediments.

The City's involvement with the Superfund site, which includes the anticipated cost for management, technical and legal staffing; sediment investigation; investigation of the outfalls; assessment of source control measures; and early natural resource projects, is currently forecast at approximately $17.7 million over the next five years. The EPA Record of Decision for the Superfund site is expected no earlier than late 2010. The total costs associated with the cleanup and restoration activities and the City's ultimate share of those costs are unknown and the City cannot at this time predict the financial impact on the Sewer System. However, the City is taking a leading role in efforts to make the cleanup efficient and effective. The City is taking a proactive stance in cooperating with EPA's sediment assessment work and developing an outfall evaluation and source control plan in cooperation with DEQ. Cleanup and restoration work will make use of the Bureau's comprehensive watershed planning and Endangered Species Act efforts now underway. The City is beginning to assess potential restoration activities with the Natural Resource Trustees, and is working with the U.S. Army Corps of Engineers on a comprehensive plan that could result in substantial funding for overall Lower Willamette natural resources restoration under the Water Resources Development Act.

CAPITAL CONSTRUCTION AND FINANCING PROGRAM

CAPITAL PLANNING PROCESS

The Bureau is responsible for the Sewer System's operation, maintenance and capital construction. The Bureau annually prepares capital budgets for the upcoming fiscal year and for the balance of the five-year planning horizon. The Bureau also periodically forecasts on 10- and 20-year horizons to gain additional understanding and insight into long-term capital financing needs. (For a discussion of Bureau policies governing the financing of capital construction projects, see "FINANCIAL POLICIES AND PLANNING STANDARDS.") The major components of the Sewer System define the program categories within the capital budgeting process. The major components are:

- **Sewage Treatment Systems.** Projects within this category include renovation, modification, and expansion of sewage treatment plants and facilities directly related to sewage treatment and solids utilization.

- **Maintenance and Reliability.** Projects within this category include maintenance of collector sewers, trunk sewers, interceptor sewers (including diversion structures within the combined system), and major pump stations.

- **Surface Water Management.** Projects within this category include construction of separated storm sewers, stormwater detention facilities, stormwater facilities necessary to meet water quality requirements, and other capital projects related exclusively to drainage services.

- **Combined Sewer Overflow.** Projects within this category include separation of combined sewers, provision of additional capacity for interceptor sewers, installation of UICs, and all other projects directly related to compliance with CSO control requirements.

- **Systems Development.** Projects within this category include construction of new pump stations, relocation of sewage collectors and interceptor lines, and other capital projects relating to Sewer System expansion that do not fall under the scope of the other program areas.

Capital projects are proposed, scheduled and evaluated according to their impact on the following criteria:

- Protection of human health, safety, and property
- Protection of existing capital investment and System reliability
- Regulatory compliance and contractual commitments
- Environmental enhancement
- Promotion of growth and economic development
- Cost reduction

Projects mandated by regulatory authorities or necessary to maintain System reliability are given priority consideration.

FACTORS AFFECTING SEWER SYSTEM CAPITAL INVESTMENT

Two major factors will guide capital investment in the Sewer System for the next ten years. First, the Bureau faces regulatory requirements driven by the federal Water Quality Act amendments of 1987. Rule-makings, administrative orders and judicial orders at the state and federal level have imposed new service requirements on the City, requiring additions to or improvements of sewage treatment and transportation facilities. The City has agreed to a schedule for meeting applicable water quality standards at all combined sewer outfalls under the ASFO approved by the EQC. (See "REGULATORY AND LEGAL ENVIRONMENT -- ADMINISTRATIVE ORDERS AND OTHER REGULATORY MATTERS AFFECTING THE CSO PROGRAM.") Costs to date through the end of FY 2005-06 total $719 million. Remaining direct costs to comply fully with the ASFO are estimated to be $728.4 million from FY 2006-07 through FY 2011-12.

Second, there is a continuing need for investments to improve the maintenance and reliability of the existing facilities. As major facilities within the Sewer System begin showing their age, major reconstruction and maintenance projects will need to be undertaken. Forecast capital improvement expenditures within the Bureau's Maintenance and Reliability Program total $93.4 million over the next five years.

CAPITAL IMPROVEMENT PROGRAM RESOURCES AND REQUIREMENTS

The City forecasts capital requirements for the Sewer System of approximately $714 million during the five-year forecast period from FY 2007-08 through FY 2011-12. A brief description of the resources required to finance these requirements follows.

- Fees, Charges, and Permits. This source of funding includes an estimate of reimbursements for engineering, administration, and construction management services charged to local improvement districts and for permit sewer construction. Also included are anticipated revenues from construction and/or engineering services for projects initiated by other local government agencies such as the City's Department of Transportation and The Port of Portland.

- Line and Branch Charges. Charges in lieu of assessment will be used to support CIP outlays. Line and branch charges are received in the form of cash and in the form of proceeds from special assessment bonds issued for property owners who elect to finance their line and branch charges.

- System Development Charges. System Development Charges ("SDCs") are equity charges applied to properties at the time they connect to the Sewer System. SDCs are based upon the total cost of major sewer facilities, less grant revenues, divided by System capacity. SDC revenues support CIP projects and debt service.

- Current Income. Current Sewer System net income from service fees and charges will also be used to fund CIP outlays. The availability of current income to fund CIP expenditures is the result of meeting debt service coverage requirements on outstanding bonds. Cash contributions to capital construction are projected to total $35.1 million over the five-year period.

- Bond Proceeds. Proceeds from the sale of Sewer System revenue bonds will support the CIP. Debt service requirements for future bond sales have been forecast assuming a 25-year debt amortization schedule within the five-year period, 20-years thereafter, and level debt service.

- Investment Income. Investment or interest income is earned on all Sewer System funds administered by the City Treasurer. Any investment income earned on balances within Sewer System funds helps offset required increases in sewer user fees.

The following table shows Sewer System capital funding by source. Expenditures for the capital program occur in the Operating Fund and are subsequently reimbursed by the Construction Fund.

Table 5
CITY OF PORTLAND, OREGON
Sewer System Construction Fund
Forecast Sources and Uses of Funds
and Estimated Changes in Fund Balances (1)

Fiscal Year	Projected 2006-07	Forecast 2007-08	Forecast 2008-09	Forecast 2009-10	Forecast 2010-11	Forecast 2011-12
(In thousands of dollars)						
RESOURCES:						
Fees & Charges, Permits	$334	$593	$608	$624	$641	$658
Line & Branch Charges	500	953	959	964	970	975
Cash Transfers In -						
Sewer System Operating Fund (2)	375	22	3,581	18	13,372	17,261
Grants and State Loans	1,600	3,648	2,691	794	0	0
Bond Proceeds (Sewer Revenue Bonds)	0	240,280	0	313,270	0	87,345
Bond Proceeds (Limited Tax Improvement Bonds)	1,000	1,600	1,700	1,800	1,900	2,000
Business Energy Tax Credit (3)	0	1,820	0	0	0	0
Interest On Investments	10,188	8,377	4,723	6,438	3,912	1,382
TOTAL RESOURCES	13,997	257,494	14,262	323,909	20,794	109,621
REQUIREMENTS:						
Cash Transfers Out:						
Sewer System Operating Fund (4)	211,875	155,471	152,284	192,563	133,245	80,601
Capitalized Overhead (to Operating Fund)	7,500	7,102	7,311	7,525	7,746	7,973
Miscellaneous	0	2,730	0	3,620	0	1,070
TOTAL REQUIREMENTS	219,375	165,303	159,595	203,709	140,990	89,643
RESOURCES OVER (UNDER) REQUIREMENTS	(205,378)	92,190	(145,333)	120,200	(120,196)	19,978
BEGINNING FUND BALANCE	259,020	53,642	145,833	500	120,700	504
ENDING FUND BALANCE	$53,642	$145,833	$500	$120,700	$504	$20,481

Notes:

(1) Totals may not foot due to rounding.
(2) Represents cash financing of construction activity from sewer system revenues.
(3) Represents sale of energy tax credits associated with building the combined heat and power system at the CBWTP.
(4) Expenditures for the capital program occur in the Operating Fund and are subsequently reimbursed from the Construction Fund.

Source: Bureau of Environmental Services.

Planned CIP outlays total $714 million over the five-year forecast period. The following table shows the construction costs estimated for FY 2006-07 and for the forecast period by program and by major expense type.

Table 6
CITY OF PORTLAND, OREGON
Sewer System
Forecast Capital Improvement Program Costs
(excluding fund balances and cash transfers)

Fiscal Year	Projected 2006-07	Forecast 2007-08	Forecast 2008-09	Forecast 2009-10	Forecast 2010-11	Forecast 2011-12	6-Year Total
(In thousands of dollars)							
SYSTEM PROGRAM							
Sewage Treatment Systems	$15,430	$8,450	$2,885	$1,858	$2,734	$2,817	$34,173
Maintenance & Reliability	20,316	13,584	13,946	28,611	22,748	14,496	113,701
Surface Water Management	4,855	8,537	6,441	1,875	2,059	2,826	26,593
Combined Sewer Overflow	164,706	115,541	125,573	158,606	104,626	59,352	728,400
System Development	6,569	9,359	3,440	1,614	1,077	1,110	23,169
TOTAL BY SYSTEM PROGRAMS	$211,875	$155,471	$152,284	$192,563	$133,245	$80,601	$926,039

Source: Bureau of Environmental Services.

FINANCIAL POLICIES AND PLANNING STANDARDS

FIVE YEAR FINANCIAL PLAN

The Bureau annually prepares a five-year financial plan that has three key elements. Initial operating and capital expenditure requirements for the Bureau are developed through separate operating and capital planning processes. They are then brought together and overall revenue requirements and a corresponding five-year funding program is developed taking account of the impacts of capital construction on future operations and maintenance requirements.

The financial planning process lays the groundwork for setting rates, which are formally adopted each year by the City Council. Additionally, the planning process helps ensure conformance with policy and planning standards pertaining to debt issuance, maintenance of reserves, and use of the Rate Stabilization Fund. From time to time, the Bureau reviews all policies and planning standards and may elect to change them.

FINANCIAL OPERATIONS POLICIES

Ending Fund Balances

The Bureau maintains a financial planning policy that the combined ending fund balances within the Sewer System Operating Fund and the Rate Stabilization Fund must be equal to or greater than ten percent of each year's Operating Expenses, plus any required debt service reserves. For FY 2006-07, the minimum combined ending fund balance would be $9.4 million, which is ten percent of Operating Expenses. The Bureau is building fund balances in the Rate Stabilization Fund through FY 2009-10 to smooth future rate increases from increased debt service. These fund balances will be drawn down through FY 2014-15, when combined fund balances are forecast to return to the minimum planning policy level of ten percent of operating expenses. In addition, as part of the Bureau's commitment to sound financial management, the Sewer System Operating Fund will also hold another $9 million of ending fund balance to mitigate interest rate risk through the life of the Bureau's variable rate junior lien debt, and another $200,000 reserve for State Revolving Fund loans currently totaling $26.3 million.

Use of Rate Stabilization Fund

The Bureau uses transfers between the Sewer System Operating Fund and the Sewer System Rate Stabilization Fund to smooth rate increases over the financial planning period. This smoothing is one of the Bureau's key financial planning objectives and is aimed at maintaining financial stability and predictability in the context of changing regulatory requirements and operating needs. It also helps ensure that debt service coverage meets planning standards. (See "Debt Service Coverage" below.)

POLICIES AND PLANS GOVERNING BOND ISSUANCE

Debt Service Coverage

The bulk of the Bureau's CIP is financed by revenue bonds. Bond covenants for outstanding First Lien Bonds affect revenue needs through coverage requirements. Though not required by existing covenants, the Bureau's planning standard is to set rates such that Net Revenues (including transfers from the Rate Stabilization Fund) are at least 1.50 times the annual debt service requirement on First Lien Bonds. The Bureau also maintains a planning standard for combined First and Second Lien Bonds that will result in Net Revenues (including transfers from the Rate Stabilization Fund) of at least 1.30 times combined Annual Debt Service on First and Second Lien Bonds. These two standards exceed the debt service coverage required by bond covenants and serve two purposes. First, the absolute dollar difference between the planning standard and the Bureau's legal debt service coverage requirement provides a margin of safety for meeting coverage requirements. Second, the higher standards ensure ongoing equity contributions to the capital program, further strengthening financial operations.

Financial Policies Relating to Variable Rate Obligations

With the issuance of the Second Lien Sewer System Revenue Bonds, 2003 Series B Bonds (the "2003 Series B Bonds"), which were issued as auction rate securities, the Bureau adopted a conservative approach to planning for interest rate volatility on its variable rate debt. For the 2007-08 five year financial plan, the Bureau forecasted annual debt service based on an average interest rate of 4.75 percent (plus 0.25 percent issuance fees), compared to current interest rates of 3.5 percent for the $150 million 2003 Series B Bonds. (See "PROJECTED REVENUES AND EXPENDITURES -- HISTORICAL AND PROJECTED RESULTS OF FINANCIAL OPERATIONS.") The difference between Actual Debt Service and the amount budgeted will be used for retirement of outstanding debt. To manage the risks associated with this variable rate debt, the Bureau has adopted the following policies:

- A fund balance of $9 million to mitigate interest rate risk was available as of June 30, 2005. This amount will be sufficient to offset interest rates at three percent above forecast levels for two years.

- The interest rate used to calculate debt service for the variable rate bonds in the Bureau's financial forecasts (for the purpose of determining planning standard coverage requirements) will be at least 100 basis points (1.0%) higher than the most recent actual rate on variable rate bonds.

- Funds representing the difference between forecast and Actual Debt Service on the variable rate bonds will be used first to fund and maintain the reserve for interest rate risk, then to retire outstanding Sewer System debt. As of February 15, 2007, accumulated savings from actual debt service below budgeted estimates totaled $5.2 million. This amount is expected to be included as a cash contribution to the refunding of the 1997 Series A Bonds.

- The Bureau will review the interest rate assumptions and revise them as necessary to satisfy the one-percent margin for the forecasts underlying the annual five-year financial plan and the annual rate study. The Bureau may update the assumptions more frequently should it determine the need to do so.

ANNUAL DISCLOSURE INFORMATION

In conformance with SEC Rule 15c2-12, as amended (17 CFR Part 240, § 240.15c2-12) (the "Rule"), the City will provide annually the information presented in this section entitled "ANNUAL DISCLOSURE INFORMATION" to all NRMSIRs and the SID, if any. (See Appendix D, "Continuing Disclosure Certificates" herein.)

OVERVIEW OF FINANCIAL OPERATIONS

Basis of Accounting

The governmental fund types, expendable trust funds, and agency funds are maintained on the modified accrual basis of accounting. The accrual basis of accounting is used for all enterprise funds. The City's accounting practices conform to generally accepted accounting principles as interpreted by the Governmental Accounting Standards Board (the "GASB"). Beginning with FY 2001-02, the City of Portland adopted the provisions of GASB Statement No. 34 ("GASB 34"), which establishes new requirements and a new reporting model for the annual financial reports of state and local governments.

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.

KPMG LLP conducted audits of the financial statements of the City of Portland and related entities from FY 1995-96 through FY 2001-02. Moss Adams LLP performed auditing services for FY 2002-03 through FY 2005-06.

A complete copy of the City's FY 2005-06 audit is available on the City's web site at http://www.portlandonline.com/omf/index.cfm?c=43896. The City's web site is listed for reference only, and is not part of this Annual Disclosure document.

Financial Reporting

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

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 City Council convenes to review overall goals, establish priorities, and provide 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.

A five-year General Fund financial forecast is provided to Council at the beginning of the budget process, in December, which serves as the basis for determining resources available for budgeting. Major City operations prepare five-year financial plans and Capital Improvement Plans, which are provided to Council about a month before budget requests are submitted.

Bureau budget requests are reviewed by teams of Council members and citizen advisors who solicit further public comment and make recommendations to the Mayor. The Mayor then develops a Proposed Budget that addresses Council priorities, public input,

and balancing requirements. Following presentation of the Proposed Budget, one or more community hearings are 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 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 through a majority 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. Per Oregon Revised Statute 30.270(1)(b)(c), general and fleet liability claims are limited to $100,000 per person, and an additional $100,000 per person under special circumstances and $500,000 aggregate per occurrence. 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. 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 the estimated final 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 the present value of the liability. For FY 2005-06, the expected rate of return was 3.75 percent. The City's 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. Current levels of accrued claims and retained earnings are viewed as reasonable provisions for expected future losses. An excess coverage insurance policy covers individual claims in excess of $1,000,000 and an excess workers' compensation coverage insurance policy covers claims in excess of $1,500,000. Settlements have not exceeded coverages in the past three fiscal years.

On July 5, 2006, the Oregon Court of Appeals decided a case, *Clarke v. Oregon Health Sciences University* ("OHSU"), challenging the constitutionality of parts of the Oregon Tort Claims Act ("OTCA"). Under the OTCA, the State's common law sovereign immunity from suit is lifted and claims may be brought against a public body in Oregon, including the City. The liability of public bodies, however, is capped at $200,000 for individual personal injury claims. In addition, the public body has to be substituted as a defendant in lieu of individual employees of the public body, thereby limiting recovery for claims against individual employees to the limits applicable to public bodies. In *Clarke,* the plaintiff was severely disabled as a result of the negligence of health professionals employed at OHSU, which is a public body. The damages alleged amounted to approximately $12 million.

Article I, Section 10 of the Oregon Constitution provides the right to a remedy to persons who are injured in their person, property or reputation. The *Clarke* court concluded that the $200,000 cap on the amount of potential recovery did not provide a substantial remedy to plaintiff in lieu of what plaintiff would have been able to claim at common law from individual government employees who were admittedly negligent. Therefore, the substitution of OHSU for the individual plaintiffs, under the facts at issue in *Clarke*, violated Article I, Section 10 of the Oregon Constitution.

The impact of the court's holding in this case on other public bodies, such as the City, is uncertain. OHSU has asked the Oregon Supreme Court to review the Court of Appeals decision. The Supreme Court accepted review and heard arguments on January 9, 2007. Although there is no specified timetable for the Supreme Court to issue its decision and some cases take a very long time from argument to decision, it is fairly likely that a decision might be reached sometime in 2007.

Under the OTCA, the City currently indemnifies its employees for liability that they incur due to negligence within the scope of their work. Accordingly, if the decision is upheld by the Oregon Supreme Court it may mean that the City must pay higher amounts to indemnify its employees who would not be protected by the damage cap.

The City is addressing potential impacts of the *Clarke* case by making appropriate adjustments to its insurance program. In November 2006, the City expanded its excess liability coverage, so that its insurance policy will now respond as needed no matter how the *Clarke* case is decided and no matter how the Oregon Tort Claims Act is challenged in the future. Also, consideration is being given in the current budget process as to the cost-effectiveness of increasing the limits of coverage on the excess liability policy and increasing the confidence level of the self-insurance reserves in the Insurance and Claims Fund.

PENSION PLANS

General

Substantially all City employees (other than most fire and police personnel), after six months of employment, are participants in three retirement pension benefit programs under the State of Oregon Public Employees Retirement System ("PERS") – Tier 1, Tier 2, or the Oregon Public Service Retirement Plan ("OPSRP").

The Tier 1 and Tier 2 pension programs (the "T1/T2 Pension Programs") are defined benefit pension plans that provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and their beneficiaries. Different benefit structures apply to participants depending on their date of hire. Retirement benefits for T1/T2 Pension Program members are based on final average salary and length of service and are calculated under a full formula method, formula plus annuity method, or money match (defined contribution) method if a greater benefit results. Beginning January 1, 2004, T1/T2 Pension Program employee contributions were directed to an individual retirement account and will be part of a separate defined contribution program.

The 72nd Oregon Legislature created the OPSRP. Public employees hired on or after August 29, 2003, become part of OPSRP, unless membership was previously established in the T1/T2 Pension Program. OPSRP is a hybrid (defined contribution/defined benefit) pension plan with two components. Employer contributions fund the defined benefit program and employee contributions fund the Individual Account Program ("IAP") under the separate defined contribution program.

Every two years the Public Employees Retirement Board ("PERB") establishes the contribution rates that employers will 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.) The rates are based upon the current and projected cost of benefits and the anticipated level of funding available from the Oregon Public Employee's Retirement Fund, including known and anticipated investment performance of the fund. T1/T2 Pension Program 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 any or all of 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 public safety employees' IAP accounts of an additional three percent of their annual salary.

The City's current employer contribution rates for the period between July 1, 2005, and June 30, 2007, are based on the December 31, 2003, actuarial valuation and are 8.07 percent of T1/T2 Pension Program payroll, 4.66 percent of OPSRP general services payroll, and 8.27 percent of OPSRP police and fire payroll. These rates do not include the six percent and nine percent employee contribution rates.

The City's employer rates for the period between July 1, 2007, through June 30, 2009, will be 6.66 percent of T1/T2 Pension Program payroll, 9.21 percent of OPSRP general services payroll, and 12.48 percent of OPSRP police and fire payroll. These rates do not include the six percent and nine percent employee contribution rates to the IAP paid by the City. These contribution rates were calculated based upon the December 31, 2005, actuarial valuation (the "2005 Valuation"), which was prepared under new actuarial methodologies that were approved in April 2006. Currently, one percent of payroll for the three pension benefit programs is approximately: $1.9 million for T1/T2 Pension Programs; $450,000 for OPSRP general services; and $50,000 for OPSRP police and fire. The City's contribution rates may increase or decrease due to a variety of factors, including the investment performance of the PERS fund, the use of reserves, further changes to system valuation methodology and assumptions and the outcome of litigation relating to legislative change and PERB action.

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"). The 2005 Valuation indicates that the City has an accrued actuarial surplus of $92,818,145. As of December 31, 2004, the City had an actuarial surplus of $587,340. The City's portion of the SLGRP's assets and liabilities is based on the City's proportionate share of SLGRP's pooled 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 PERS actuary recently released its first valuation of OPSRP for the year ending December 31, 2005. As of December 31, 2005, OPSRP's actuarial asset value was $55 million and the actuarial accrued liability was $53.8 million, resulting in a funded ration of 102.2 percent.

In addition to the City's employer rate, each City bureau is required to make a contribution to pay debt service on approximately $300.8 million Limited Tax Pension Obligation Revenue Bonds issued in FY 1999-2000 to fund the City's unfunded actuarial liabilities with PERS as of December 31, 1997

Legal Challenges

The 2003 Oregon Legislative Assembly enacted significant changes to PERS (the "2003 PERS Legislation") that were intended to reduce costs for participating employers, including the City. Several Oregon employees filed lawsuits challenging various aspects of the 2003 PERS Legislation. The 2003 PERS Legislation, among other things, affected the earnings calculation on the accounts of Tier 1 Pension Program members; created the OPSRP retirement program; blocked further contributions to variable rate accounts, and required updated actuarial tables. The initial challenges to the 2003 PERS Legislation were consolidated and decided by the Oregon Supreme Court in 2005, although several additional lawsuits remain pending in the Oregon state courts. The United States Court of Appeals for the Ninth Circuit decided the initial federal court challenges to the PERS legislation in October 2006, including one case challenging the updated actuarial tables. In that case, the Ninth Circuit affirmed in part, reversed in part and remanded back to the lower court for further proceedings related to the procedural posture of the case.

The 2003 PERS Legislation also provided a statutory remedy to a prior case filed by the City of Eugene and other public employers. In that case, the trial court ruled, among other things, that PERB credited too much in 1999 earnings to certain member accounts. The decision was appealed by PERS members who intervened in the case. The original parties in the case entered into a settlement agreement in which PERB agreed, among other things, to reduce the 1999 earnings credited to certain member regular accounts. In 2005, the Oregon Supreme Court dismissed the appeal of the case as moot and in July 2006, the court vacated the underlying trial court judgment.

The Supreme Court's decision in the City of Eugene appeal will affect certain pending cases that challenge PERB's actions taken to address the 1999 over-crediting addressed in the litigation, the City of Eugene settlement, and the 2003 PERS Legislation. This decision will most directly affect a class action suit filed by certain retirees which challenges PERB's recovery of funds from the 1999 earnings over-crediting. The amount at issue is approximately $800 million. If the court finds in favor of the retirees, PERS may be required to devise an alternative method to recover the funds.

The recently released 2005 Valuation takes into account the court decisions in existence when the valuation was completed. The outcome of the pending federal and state cases challenging the Legislature's and PERB's actions may affect the system's and the City's unfunded actuarial liability in the future.

Fire and Police Disability and Retirement Fund

Most of the fire and police personnel are covered under the City's Fire and Police Disability and Retirement ("FPDR") Fund. The FPDR Fund is financed from a special property tax levy of not less than $1.00 or more than $2.80 per $1,000 of real market value of property in the City. In the event that the special property tax levy is insufficient to pay benefits because benefits paid exceed the $2.80 per $1,000 limit, then other City funds would be required to make up the difference. The FY 2006-07 imposed levy of $86,550,497 for pension purposes requires a tax rate of $2.2379 per $1,000 of assessed property value, or approximately $1.37 per $1,000 of real market value.

In November 1989, the voters of the City agreed to amend the FPDR Plan to bring its provisions in line with PERS. Under state law, plans must be "equal to or better than" PERS. Basic retirement benefit changes involved reducing vesting from 25 years to 5 years, elimination of employee contributions, and elimination of termination of benefits to a surviving spouse that remarries. Disability benefits were modernized to cover conditions such as AIDS and Hepatitis B, vocational rehabilitation, wage offsets for outside earnings, and reduction of benefits when conditions become medically stationary and a person is capable of other employment. Calculation of disability pay was also changed from 100 percent of salary for the first year, 100 percent of First Class Patrol or Firefighter for the next 3 years and 60 percent of First Class pay thereafter, to 75 percent of salary until medically stable and capable of other employment.

As of July 1, 2006, the unfunded actuarial liability of the FPDR Fund was $1,802,394,343. In consultation with its external auditor, the City reviewed the discount rate and assumptions utilized in the calculations of the actuarial valuation, actuarial accrued pension liabilities, and net pension obligation, and determined they should be revised to more closely match the funding and investment returns that could be achieved under existing investment. In FY 2005-06, City continued to monitor the discount rate used to value the Fund liabilities throughout the fiscal year and revised the 2005 discount rate of 6.63% used to value the FPDR Fund liabilities to 6.04%. The impact of this change increased the net pension obligation by $362,344.

On November 7, 2006, City voters passed a ballot measure that will change the structure of the FPDR Plan. The change took effect on January 1, 2007. Under the new structure, the number of members on the board of trustees will be reduced from the current eleven members to five. The five members will include two citizen members with expertise in disability or retirement, one City representative, and two member representatives. In addition, the FPDR Board will no longer decide claims. A qualified administrator will deny or approve claims. Appeals will be made to independent hearings officers with disability experience.

All police and firefighters hired after January 1, 2007, will receive retirement benefits through OPSRP rather than the existing FPDR Plan. The FPDR levy will pay 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 – General," above.) This move is expected to increase property taxes for 35 years. Performance audits will be implemented to asses the implementation of the FPDR Plan reforms.

POST-EMPLOYMENT RETIREMENT BENEFITS

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 or allocated to individual employers. Based upon the 2005 Valuation, the RHIA program had an unfunded actuarial liability of approximately $314.9 million, which represents a funded ratio of 36.5%. The City's employer contribution rate for the RHIA plan for the period between July 1, 2005, through June 30, 2007, is 0.59% of covered payroll, which is included in the City's T1/T2 Pension Program employer contribution rate of 8.07% described above. The City's employer contribution rate for the RHIA plan for the period between July 1, 2007, through June 30, 2009, is 0.37%, which is included in the City's T1/T2 Pension Program employer contribution rate of 6.66 percent described above. The valuation information for RHIA has been calculated under GASB Statement No. 43 valuation standards.

Distinct from the PERS program, the City is currently assessing its liability for other post-employment benefits ("OPEB") in anticipation of expanded reporting requirements specified by GASB Statement No. 45 ("GASB 45").

Oregon municipalities, including the City, are required to allow retires 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. GASB 45 refers to this as an implicit subsidy and therefore requires the corresponding liability to be determined and reported. The City's benefits consulting firm's actuary is performing the actuarial valuation for purposes of complying with the GASB 45 standards. The City expects to report its OPEB liability in conformance with GASB 45 requirements beginning with the fiscal year ending June 30, 2008.

FUND ACCOUNTING SYSTEM

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

Sewer System Operating Fund

The Sewer System Operating Fund (Fund 151) provides for the day-to-day operation, maintenance and management of Bureau programs. All payments for Sewer System personnel, materials and services are made within the Sewer System Operating Fund, with reimbursement from the Sewer System Construction Fund (described below) for capital improvements.

Environmental Remediation Fund

The Environmental Remediation Fund (Fund 161) has in the past supported the City's waste disposal site remediation activities and contributes funds to the Portland Harbor Superfund investigation. Beginning FY 2005-06, all expenditures for this program occur in this fund, funded through cash transfers from the Sewer System Operating Fund, and operating revenues of the Environmental Remediation Fund.

Sewer System Construction Fund

The Sewer System Construction Fund (Fund 552) provides for the funding of Sewer System capital improvements, holding equity contributions and net bond proceeds until requested by the Sewer System Operating Fund for reimbursements of certain capital-related expenditures.

Sewer System Debt Redemption Fund

The Sewer System Debt Redemption Fund is a single fund (Fund 351) that provides for payment of City debt incurred in conjunction with construction of Sewage System facilities.

Agency and Trust Funds. Three separate Agency and Trust funds have been established which (i) allow for better financial management by enabling the City to level fluctuations in Sewer System revenues (primarily connection charges) from year to year, (ii) allow for the deposit of monies from the State of Oregon's State Assessment Deferral Loan Fund, and (iii) allow for the deposit of monies to fund loans for private plumbing connections to the Sewer System. Included in this category are:

- Sewer System Rate Stabilization Fund (Fund 632)
- Sewer System Safety Net Fund (Fund 633)
- Sewer System Revolving Loan Fund (Fund 636)

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

HISTORICAL REVENUES AND EXPENDITURES

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

Table 7
CITY OF PORTLAND, OREGON
Sewer System
Historical Operating Results (1)

Fiscal Year	2001-02	2002-03	2003-04	2004-05	2005-06
(In thousands of dollars, except for debt service coverage)					
GROSS REVENUES (1)					
Total Operating Revenues	$150,035	$154,443	$166,407	$175,716	$187,302
Interest Earnings	4,211	1,612	2,585	3,531	6,060
System Development Charges	7,320	9,242	8,271	9,361	12,464
Cash Transfers In -					
Rate Stabilization Fund (2)	5,275	0	362	0	0
Other Funds	4,496	3,560	3,003	3,164	2,946
TOTAL GROSS REVENUES	$171,337	$168,858	$180,628	$191,772	$208,771
OPERATING EXPENSES					
Operating Expenses (3) (4)	$79,276	$67,340	$69,747	$72,072	$74,494
Cash Transfers Out -					
Rate Stabilization Fund (2)	0	5,175	9,187	6,100	23,000
TOTAL OPERATING EXPENSES	$79,276	$72,515	$78,935	$78,172	$97,494
NET REVENUES	$92,060	$96,343	$101,694	$113,600	$111,278
DEBT SERVICE					
First Lien Bonds	$61,379	$61,385	$56,576	$53,447	$61,932
Second Lien Bonds (5)	0	0	$11,001	$12,967	$14,258
TOTAL DEBT SERVICE	$61,379	$61,385	$67,577	$66,414	$76,190
DEBT SERVICE COVERAGE (6)					
With Rate Stabilization Transfers					
First Lien Bonds	1.50x	1.57x	1.80x	2.13x	1.80x
First and Second Lien Bonds	N/A	N/A	1.50x	1.71x	1.46x
Without Rate Stabilization Transfers					
First Lien Bonds	1.41x	1.65x	1.95x	2.24x	2.17x
First and Second Lien Bonds	N/A	N/A	1.64x	1.80x	1.77x

Notes:

(1) As defined in the First Lien Bond Ordinance.
(2) Transfers from the Rate Stabilization Fund are used to balance coverage to the planning standard. (See "FINANCIAL POLICIES AND PLANNING STANDARDS – Use of Rate Stabilization Fund.")
(3) Excluding depreciation expense.
(4) Operating expenses in FY 2001-02 include an increase of $13.6 million in allowance for uncollectible debt associated with the Open Vision customer billing system. (See "USER CHARGE BILLING AND COLLECTION SYSTEM.")
(5) The interest rate on second lien variable rate bonds is calculated using the Estimated Average Interest Rate as defined in the Master Second Lien Sewer System Revenue Bond Declaration and differs from the actual interest payments.
(6) From FY 1998-99 through FY 2001-02 the Bureau's planning standard for debt service coverage on First Lien bonds was 1.45. Beginning with FY 2002-03, the coverage planning standard on First Lien bonds was increased to 1.50.

Source: Bureau of Environmental Services.

Table 8
CITY OF PORTLAND, OREGON
Sewer System
Interim Financial Results (Unaudited)
Through Accounting Period Ending AP-7 January 10, 2007 (1)

	Partial Year FY 2006-07
Operating Revenues:	
Services Charges and fees	$111,231,117
Licenses and permits	693,112
Rents and reimbursements	656,029
Miscellaneous	1,500,317
Total operating revenues	**$114,080,575**
Operating Expenses:	
Salaries and wages	$22,133,698
Operating supplies	1,418,756
Professional services	7,127,068
Internal Services	15,417,353
Repairs and Maintenance	368,715
Utilities	2,740,671
Other Services	7,212,526
Insurance	451,999
Travel Expense	112,075
Depreciation	n/a
Miscellaneous	2,334,314
Total operating expense	$59,316,845
Operating income (loss)	**$54,763,730**
Non-Operating Revenues (Expenses):	
Interest on investments	$5,983,504
Interest expense	(15,547,990)
Gain (loss) on disposal of fixed assets	18,273
Miscellaneous	0
Operating transfers in (out)	(7,720,269)
Total Non-Operating Revenue (Expense)	$(17,266,482)
Net Income (loss)	**$37,497,248**
Retained Earnings, July 1, 2006	$964,021,888
Retained Earnings, December 13, 2006	$1,001,519,136

Notes:
(1) Figures are preliminary and unaudited, based on accounting period 7, January 10, 2007. There are 13 accounting periods in the City of Portland fiscal year. Accounting period 7 is approximately 53% year elapsed.

Source: Bureau of Environmental Services.

USER CHARGE BILLING AND COLLECTION SYSTEM

Ratemaking and Authorization

Section 11-302 of the City Charter authorizes the City Council to fix fees and charges for connection to and use of the Sewer System. Sewer user fees and connection charges are formally reviewed every year by the Bureau. Rates required to support proposed activities and meet all obligations to bondholders under the Ordinance are submitted annually by the Director of the Bureau to the City Council for review and approval. No governmental approval, other than the City Council's, is required. The City Council approved an average increase of approximately 5.55 percent to fees and charges for FY 2006-07 in May 2006. Over the last 20 years, rate increases have averaged 9.1 percent annually. The largest increases occurred in FY 1991-92 when average monthly residential bills rose 24 percent, from $11.40 to $14.15, and 22 percent the following year, to $17.20 per month.

Billings and Collections

In February 2005 the billing and collection services for the City's sewer, stormwater and water systems were transferred to the Office of Management and Finance ("OMF") in conjunction with the implementation of the City's new Cayenta Utility Billing System. In September 2005 these functions along with licenses and liens were consolidated into the newly-created Revenue Bureau within OMF. Billing and collection services were transferred back to the Water Bureau on December 14, 2006 after successful implementation of the new billing system. Operation and maintenance of the Cayenta Utility Billing System software remained with the Revenue Bureau.

As of the end of Accounting Period 7, January 10, 2007, Sewer System billings and collection services for retail customers, provided by the City's Revenue Bureau, are on a quarterly cycle for approximately 164,324 accounts, a bimonthly cycle for approximately 5,237 accounts, and on a monthly basis for 5,536 large user accounts. Bills sent to customers include separate line items for sewer, stormwater, and water services.

The approximately 5,237 bimonthly sewer accounts mentioned above receive water from the Rockwood Water People's Utility District, or the Lorna Water District. Since they are not City water customers, there is no water shutoff option for collection of delinquent sewer bills for these customers. Liens have been used for owner-occupied single family properties. Past due balances currently total approximately $1.6 million for this group, approximately 19.7 percent of total sewer and stormwater past due balances.

Wholesale customers are billed at various times during a fiscal year ranging from bi-monthly to quarterly. As of June 30, 2006, no wholesale customer was delinquent with respect to billed charges.

Open Vision Customer Billing System

In 1997, the Water Bureau began planning to replace its 20-year-old customer billing and information system. The Water Bureau selected Severn Trent Systems ("STS") of Houston, Texas to provide and install its Open Vision ("OV") system. The OV system was intended to meet the Water Bureau's specific needs as a water utility and as the billing agent for the Bureau.

The OV system began bill production in February 2000 for the two bureaus' 176,000 residential and commercial water and sewer accounts and 19 wholesale water accounts. Immediately upon activation of the OV system, numerous system difficulties were encountered. These difficulties were primarily related to incorrect billing or non-billing of accounts and the lack of automated past due account collections processing. Problems with the OV system were causing serious utility financial impacts by June 2000, including an increase in combined water and sewer accounts receivable from historically constant levels of around $15 million to nearly $35 million by June 30, 2000.

Ongoing stabilization efforts resulted in nearly 100 percent of customer accounts receiving timely and accurate bills prior to OV being successfully replaced by the Cayenta Utilities system in April 2006. As a result the Bureau's billings and cash receipts have returned to normal, and net receivables have been reduced from $36.3 million as of June 30, 2001, to $175.8 million as of June 30, 2006. The City estimates that maintaining the OV system for two more years through April of 2009 will cost approximately $90,000 per year for information technology support.

The Bureau's financial projections include an allowance for uncollectibles of $5.6 million, or approximately 23 percent of total receivables as of June 30, 2006. To enhance the effectiveness of planned debt recovery efforts, the City has used its ability under state law to place a lien on properties of sewer customer accounts where water cannot be shut off. In June 2004 approximately $1.5 million in delinquent sewer and stormwater balances was certified to the County Assessor for inclusion in November property tax

bills. These liens are for properties where the ratepayer is the property owner. The balance on these liens receivables are now below $70,000 as of June 30, 2006. The City has explored the feasibility of placing liens on rental properties as well, but has elected to pursue collection for these accounts through an external collection agency. The Water Bureau will be exploring other legal means of collection.

Rate Reform

To reflect the contributions to stormwater management made by individuals who install stormwater facilities on site, the City Council directed the Bureau to develop a discount program for stormwater charges. That program, referred to as the Clean River Rewards Program, was implemented on October 30, 2006. It provides for up to a 35 percent discount on the stormwater portion of the bill for customers who manage all stormwater on-site. The remaining 65 percent of the stormwater charge, representing costs associated with public rights of way, is not subject to discount. Owing to delays in implementing the program, the City Council determined that customers who apply for and receive discounts during the first twelve months of the program should be granted the discounts for a retroactive period of one year. The Bureau has included an estimate of the one-time cost of these retroactive payments to be approximately $6 million in the financial plan. The cost will be recovered from ratepayers through stormwater charges.

Low Income Discounts

The City Council has expressed concern regarding the cost impacts of water and sewer bills to low-income households. In May 1997, after twelve months of research and analysis, the City Council approved an expanded version of the existing low-income assistance program, which was implemented July 1, 1997. Program enhancements included extending eligibility to multifamily customers paying their own water/sewer bills, no charge for monthly billing for residential accounts (normally billed quarterly), enhanced assistance for leak repair, a program coordinator to oversee increased marketing efforts, and enhanced accessibility. The bill discount is 40 percent of a typical low-income customer bill, which lowers sewer bills for eligible residential households by approximately $18.74 per month or $224.88 per year for the current fiscal year. Funding is provided by adjusting rates for all classes of customers upward to offset the revenue reductions from the low-income discount program. Total sewer revenue redistribution from low-income discount rates is estimated at approximately $1.2 million for the current fiscal year.

In October 2005, the Council also approved a two year Pilot Project that would extend the low-income assistance program to a limited number of low-income renters who currently occupy units that are sub-metered. The Pilot Project will allow the City to evaluate:

- The best methods of administering a program where the bill is not given directly to the occupant;
- The overall cost of providing financial assistance to sub-metered multi-family units; and
- The impact on water usage as a result of conservation improvements.

Wholesale Rates

The City currently provides contractual services to one major wholesale customer, the City of Lake Oswego, Oregon, and several smaller wholesale customers, including county service districts and portions of two other cities. Each wholesale service contract provides for full cost recovery during the life of the contract. Charges to wholesale customers were $3,260,631 for FY 2005-06, which were approximately 0.88 percent of total System revenues.

Table 9
CITY OF PORTLAND, OREGON
Sewer System
Historical Monthly Rates and Charges (1)

Fiscal Year	2001-02	2002-03	2003-04	2004-05	2005-06
CUSTOMER CLASS					
Residential					
Account Service ($/account)	2.24	2.71	3.08	3.16	3.19
Sanitary Volume ($/ccf)	4.10	4.46	4.74	4.99	5.30
Impervious Area Charge ($/1000 sq. ft.)	4.57	4.76	5.04	5.54	5.94
Average Single-Family Monthly Bill($/account) (2)	33.40	35.05	37.56	40.51	42.89
Commercial					
Sanitary Volume ($/ccf)	4.242	4.585	4.868	5.138	5.431
Cooling (Clean) Water					
To Combined Sewer ($/ccf)	4.242	4.585	4.868	5.138	5.431
To Storm Sewer ($/ccf)	0.457	0.476	0.505	0.557	0.591
Impervious Area Charge ($/1000 sq. ft.)	5.00	5.17	5.54	6.06	6.45
Billing Charge - Monthly/Quarterly	7.17	8.60	9.69	10.00	10.61
Extra Strength					
Biochemical Oxygen Demand ($/lb.)	0.405	0.437	0.463	0.492	0.457
Suspended Solids ($/lb.)	0.487	0.562	0.554	0.591	0.559
Capital Charges					
Sanitary System Development Charge ($/EDU)	2,139	2,275	2,420	2,680	2,830
Year-to-Year Percentage Increase Of Avg. Single-Family Monthly Bill	10.0%	7.0%	6.2%	5.9%	5.6%

Notes:

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

Source: Bureau of Environmental Services.

Major Retail Users

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

Table 10
CITY OF PORTLAND, OREGON
Sewer System
Largest Bureau Customers (FY 2005-06)

CUSTOMER	Total Sewer Charge	Percentage of Rate Revenues
Portland Public Schools	$1, 757,276	0.94%
Siltronic Corp.	1,699,013	0.91
Oregon Health Sciences University	1,347,535	0.72
Port of Portland	1,265,747	0.68
Precision Castparts	1,225,354	0.65
Westfarm Foods	1,214,751	0.65
Housing Authority of Portland	1,004,945	0.54
Portland State University	841,961	0.45
Multnomah County Facilities & Properties	840,457	0.45
American Property Management	783,174	0.42
Total	$11,980,214	6.40%

Source: City of Portland.

OUTSTANDING SEWER SYSTEM DEBT

Revenue Bonds

Upon the issuance of the 2007 Series A Bonds, the City expects to have a total of $1,214,230,000 of Sewer System First and Second Lien Bonds outstanding. The following table shows outstanding First and Second Lien Bonds as of the delivery of the 2007 Series A Bonds.

Table 11
CITY OF PORTLAND, OREGON
Sewer System
Outstanding First and Second Lien Bonds

Issue	Dated	Final Maturity	Original Par Amount	Amount Outstanding
First Lien Bonds				
1997 Series A Bonds	8/15/1997	6/1/2007	$262,500,000	$15,600,000
1998 Series A Bonds	9/15/1998	6/1/2018	$160,000,000	$127,910,000
2004 Series A Bonds	11/30/2004	10/1/2024	163,500,000	153,310,000
2004 Series B Bonds	11/30/2004	6/1/2017	93,080,000	93,080,000
2005 Series A Bonds	6/16/2005	8/1/2020	144,850,000	144,850,000
2006 Series A Bonds	5/25/2006	6/15/2031	177,845,000	177,845,000
2007 Series A Bonds	3/8/2007	3/8/2007	193,510,000	193,510,000
			$1,195,285,000	$906,105,000
Second Lien Bonds				
2003 Series A Bonds	4/3/2003	6/1/2023	$88,370,000	$70,990,000
2003 Series B Bonds	6/12/2003	6/1/2023	150,000,000	150,000,000
2006 Series B Bonds	5/25/2006	6/15/2031	89,245,000	87,135,000
Subtotal			$327,615,000	$308,125,000
Total			$1,522,900,000	$1,214,230,000

Source: City of Portland.

The following table shows the Sewer System's expected annual debt service requirements associated with outstanding First Lien Bonds and Second Lien Bonds anticipated to be issued as of the Date of Delivery of the 2007 Series A Bonds.

Table 12
CITY OF PORTLAND, OREGON
Sewer System Revenue Bonds
Annual Debt Service Requirements

Fiscal Year Ending 30-Jun	2007 Series A Bond Debt Service	Outstanding First Lien Bond Debt Service	Total First Lien Bond Debt Service	Total Second Lien Bond Debt Service (1)	Total Debt Service
2007	$2,940,740	$39,576,559	$42,517,300	$17,115,927	$59,633,227
2008	25,340,000	49,734,519	75,074,519	24,720,952	99,795,471
2009	25,335,000	49,738,969	75,073,969	24,377,547	99,451,516
2010	25,341,000	49,738,444	75,079,444	25,065,431	100,144,875
2011	33,105,500	49,739,244	82,844,744	17,082,372	99,927,116
2012	33,098,500	49,736,544	82,835,044	17,776,981	100,612,025
2013	33,097,000	49,749,431	82,846,431	17,084,897	99,931,328
2014	33,097,500	49,729,619	82,827,119	17,428,014	100,255,133
2015	33,106,500	49,738,219	82,844,719	17,428,302	100,273,021
2016		85,078,519	85,078,519	17,431,364	102,509,883
2017		85,105,869	85,105,869	17,431,489	102,537,358
2018		85,950,819	85,950,819	17,081,835	103,032,654
2019		77,000,969	77,000,969	25,354,768	102,355,737
2020		77,008,069	77,008,069	24,524,823	101,532,892
2021		76,991,444	76,991,444	24,869,812	101,861,256
2022		25,008,250	25,008,250	77,793,465	102,801,715
2023		25,016,850	25,016,850	77,978,103	102,994,953
2024		25,005,975	25,005,975	6,134,571	31,140,546
2025		25,012,313	25,012,313	6,134,799	31,147,112
2026		12,230,675	12,230,675	6,138,827	18,369,502
2027		12,225,600	12,225,600	6,135,754	18,361,354
2028		12,229,150	12,229,150	6,139,647	18,368,797
2029		12,227,675	12,227,675	6,135,299	18,362,974
2030		12,230,500	12,230,500	6,137,811	18,368,311
2031		12,226,500	12,226,500	6,136,065	18,362,565
Total	$244,461,740	$1,098,030,722	$1,342,492,462	$509,638,855	$1,852,131,317

Notes:

(1) Assumes variable rate Second Lien Sewer System Revenue Bonds, 2003 Series B Bonds carry an interest rate of 4.75 percent. These bonds are Auction Rate Securities, currently in 35-day mode.

Source: City of Portland.

The 2003 Series B Bonds were issued as two tranches of auction rate securities on June 12, 2003, both of which are currently in 35-day mode. The following table shows the average annual interest rate on each tranch of 2003 Series B Bonds beginning in FY 2003-04.

Table 13
CITY OF PORTLAND, OREGON
Sewer System Revenue Bonds
Average Annual Interest Rate on Variable Rate Auction Rate Securities

Fiscal Year	2003 Series B-1	2003 Series B-2
2003-04	0.93%	0.91%
2004-05	1.82%	1.82%
2005-06	2.87%	2.85%
2006-07 (1)	3.44%	3.44%

Notes:

(1) Partial year results.

Source: City of Portland.

(End of Annual Disclosure Information)

PROJECTED REVENUES AND EXPENDITURES

Sewer System historical and forecast operating results are shown in the tables which follow. In general, the results reflect continued high levels of investment in CSO control, and relatively moderate growth in operating expenditures. The financial forecast through FY 2011-12 has been developed in conformance with the Bureau's financial policies and planning standards. (See "FINANCIAL POLICIES AND PLANNING STANDARDS.")

ASSUMPTIONS

Key assumptions underlying the revenue forecast through FY 2011-12 include:

- Annual rate increases of 5.6 percent over the forecast interval;
- System development charge revenues will average $9.6 million annually;
- Annual growth of 0.5 percent in the number of accounts within the City;
- Planned debt service coverage ratios of at least 1.50 on First Lien Bonds and 1.30 on First and Second Lien Bonds combined; and
- An operating reserve equal to 10 percent of operating expenses for unforeseen financial needs.

Key assumptions underlying the cost forecast include:

- 2.64 percent annual inflation for external materials and services;
- 3.18 percent for personal services; and
- 3.47 percent for internal materials and services.

Assumptions underlying the debt forecast include:

- Additional long-term debt issued in support of future years' capital improvement programs, in the following gross amounts (including projected costs of issuance):

Fiscal Year	Amount
2007-08	$240,480,000
2008-09	0
2009-10	313,270,000
2010-11	0
2011-12	87,345,000
TOTAL	$641,095,000

- FY 2007-08 amount assumed to include $196,375,000 of First Lien Bonds, and 44,105,000 of Second Lien Bonds. All future amounts are assumed to be First Lien Bonds. The City may choose to issue Second Lien Bonds in future fiscal years where First Lien Bonds are currently assumed.

- A 6.0 percent interest rate on the FY 2007-08 fixed-rate debt issue, and a 6.50 percent interest on the FY 2009-10 and FY 2011-12 fixed-rate debt issues, and a 4.75 percent interest rate on existing variable rate debt.

USE OF RATE STABILIZATION FUND

The Bureau uses transfers between the Sewer System Operating Fund and the Sewer System Rate Stabilization Fund to smooth rate increases while ensuring that coverage meets planning standards purposes. (See "FINANCIAL POLICIES AND PLANNING STANDARDS.")

Table 14
CITY OF PORTLAND, OREGON
Sewer System
Historical and Projected Rate Stabilization
Ending Fund Balance (1) (2)

Fiscal Year		Ending Balance
1999-00		$11,456,467
2000-01		7,980,169
2001-02		3,028,123
2002-03		8,466,233
2003-04		17,250,854
2004-05		20,498,158
2005-06		41,598,441
2006-07	Forecast	50,861,325
2007-08	Forecast	63,657,260
2008-09	Forecast	59,822,402
2009-10	Forecast	63,569,978
2010-11	Forecast	44,611,388
2011-12	Forecast	29,761,680
2012-13	Forecast	15,213,184
2013-14	Forecast	13,231,188
2014-15	Forecast	9,928,641

Notes:

(1) Balances reflect transfers to and from the Sewer System Operating Fund as well as interest earnings on Rate Stabilization Fund balances.

(2) Rate smoothing policy is reflected in the drawing down of fund balance from FY 2000-01 through FY 2001-02. Increases in fund balance from FY 2002-03 through FY 2009-10 reflects the decision to increase the minimum balance held in the Rate Stabilization Fund as a contingency for unforeseen expenditures, and to build fund balance for the purpose of smoothing rate increases beyond the five-year forecast interval.

Source: Bureau of Environmental Services.

Table 15
CITY OF PORTLAND, OREGON
Sewer System
Forecast Customer Accounts

Fiscal Year	Current 2006-07	Forecast 2007-08	Forecast 2008-09	Forecast 2009-10	Forecast 2010-11	Forecast 2010-11
Customer Class						
Residential						
Single Family	147,821	148,560	149,303	150,050	150,800	151,554
Multi Family						
Monthly	1,795	1,805	1,814	1,823	1,832	1,841
Quarterly	9,162	9,207	9,253	9,299	9,345	9,392
TOTAL RESIDENTIAL	158,778	159,572	160,370	161,172	161,977	162,787
Commercial						
Monthly	3,209	3,225	3,241	3,257	3,273	3,289
Quarterly	9,782	9,831	9,880	9,929	9,979	10,029
Extra Strength	49	49	49	49	49	49
Commercial Clean Water to Storm Sewer	15	15	15	15	15	15
TOTAL COMMERCIAL	13,055	13,120	13,185	13,250	13,316	13,382
Total Forecast Accounts	171,833	172,692	173,555	174,422	175,293	176,169

Source: Bureau of Environmental Services.

Table 16
CITY OF PORTLAND, OREGON
Sewer System
Current and Forecast Monthly Rates and Charges (1)

Fiscal Year	Current 2006-07	Forecast 2007-08	Forecast 2008-09	Forecast 2009-10	Forecast 2010-11	Forecast 2011-12
CUSTOMER CLASS						
Residential						
Standard Account Service ($/Account) (2)	3.58	N/A	N/A	N/A	N/A	N/A
Sewer Only Account Service ($/Account) (2)	3.30	N/A	N/A	N/A	N/A	N/A
Sanitary Volume ($/ccf)	5.63	6.05	6.51	6.99	7.52	8.08
Impervious Area Charge ($/1,000 sq. ft.)	7.01	7.40	7.82	8.25	8.72	9.21
Average Single-Family Monthly Bill ($/Account) (2) (3)	48.57	47.61	50.36	53.27	56.36	59.61
Commercial						
Sanitary Volume ($/ccf)	5.730	6.151	6.606	7.093	7.617	8.178
Cooling (Clean) Water To Storm Sewer ($/ccf)	0.626	0.661	0.698	0.737	0.778	0.822
Impervious Area Charge ($/1,000 sq. ft.)	7.57	7.99	8.44	8.91	9.41	9.94
Billing Charge – Monthly & Quarterly (2)	11.51	N/A	N/A	N/A	N/A	N/A
Extra Strength						
Biochemical Oxygen Demand ($/lb.)	0.480	0.507	0.535	0.565	0.597	0.630
Suspended Solids ($/lb.)	0.586	0.619	0.653	0.690	0.729	0.770
Capital Charges (4)						
Sanitary Sewer SDC ($/EDU)	2,995	3,175	3,365	3,567	3,781	4.008
Forecast Year-to-Year Percentage Increase of Avg. Single-Family Monthly Bill	5.55%	5.60%	5.60%	5.60%	5.60%	5.60%

Notes:

(1) Abbreviations used in the table include the following: "ccf" (hundred cubic feet) and "EDU" (Equivalent Dwelling Units).
(2) Beginning in FY 2007-08, BES will no longer collect any Account Service Charges associated with the Sewer System billings. These charges will be consolidated with the Water Bureau account service charges. The Water Bureau will set the rates for all Sewer System and Water System account service charges, collect these revenues, and pay related expenses.
(3) Average bills have been restated to reflect average annual billed consumption, which is lower than winter average use.
(4) Capital charges for FY 2007-08 and beyond are estimated; state law requires that these fees to be based on actual capital projects completed, thus they are computed annually.

Source: Bureau of Environmental Services.

COMPARISON OF MONTHLY RESIDENTIAL BILLS

The table below compares average monthly bills for single-family residential customers in a regional and national sample of cities.

Table 17
CITY OF PORTLAND, OREGON
Sewer System
Comparison of Average Monthly Sewer and Stormwater Bills
For Single Family Residential Monthly Customers (1)

Local/Regional (2)	Monthly Bill
Puyallup, WA	$59.40
Yachats, OR	55.25
Seattle, WA	50.57
Olympia, WA	49.06
McMinnville	46.15
Portland	**45.25**
Tacoma, WA	42.27
Vancouver, WA	39.35
Milwaukie	36.79
Salem	34.98
Beaverton	34.08
Corvallis	33.27
Washington County	32.62
Tigard	32.62
Lake Oswego	32.36
Gresham	31.33
Spokane, WA	31.18
Clackamas County	29.00
Eugene	28.16
Ashland	26.82
National	
Atlanta, GA	$55.25
Juneau, AK	54.91
Honolulu, HI	47.16
Portland, OR	**45.25**
Knoxville, TN	45.21
Charlotte, NC	41.64
Sacramento, CA	40.78
Cincinnati, OH	39.48
Richmond, VA	37.63
San Diego, CA	36.83
San Francisco, CA	33.21
Boston, MA	32.89
Washington, DC	31.75
Nashville, TN	26.73
Kansas City, MO	21.32
Denver, CO	20.76
Salt Lake City, UT	13.56

Notes:

(1) As of February 2007. Bills are calculated based on average sewer usage as reported by agency.
(2) Unless indicated otherwise, local/regional utilities are within Oregon.

Source: Bureau of Environmental Services.

HISTORICAL AND PROJECTED RESULTS OF FINANCIAL OPERATIONS

Tables 18 and 19 show historical and projected results of the Sewer System's financial operations for FY 2001-02 through FY 2011-12. As shown in Table 19, total operating revenues grow at an average annual rate of 5.7 percent over the forecast interval, from the current year's projection of $190.5 million to $251.8 million in FY 2011-12. Service charges and fees are the largest component of operating revenues. Their growth from $184.5 million to $245.1 million over the same interval (an annual average increase of 5.8 percent) reflects forecast rate increases averaging 5.6 percent, 0.5 percent growth in the number of accounts served, and continued water conservation by residential and commercial customers. It also reflects the current year forecast for the Clean River Rewards Program's retroactive credits of $5 million. Without these one-time credits, the annual average increase would be 5.3 percent. Total gross revenues are forecast to increase from the current year projection of $224.1 million to $292.6 million, an annual average increase of 5.5 percent.

Forecast Operating Expenses increase from the current year's projection of $93.2 million to $102.3 million in FY 2011-12, an annual average increase of 1.9 percent, reflecting moderate growth in the Bureau's operating program, due in large part for the reassignment of billing expenses to the Water Bureau who will collect all service charges as well. As noted above, Utility License Fees were subordinated to the payment of debt service for First Lien Bonds and Second Lien Bonds beginning in FY 2001-02. Therefore, they are not included in the Operating Expenses category in the forecast.

Net Revenues are forecast to increase from the current year's projected $130.9 million to $190.3 million in FY 2011-12, an average annual increase of 7.8 percent. First and second lien debt service requirements are projected to increase from the current $100.7 million to $146.5 million in FY 2011-12. During the forecast period, the Bureau expects to maintain debt service coverage at or above the 1.50 policy standard on the First Lien Bonds, and to meet or exceed the 1.30 policy standard on the First and Second Lien Bonds combined.

Table 18
CITY OF PORTLAND, OREGON
Sewer System
Historical Operating Results

Fiscal Year	2001-02	2002-03	2003-04	2004-05	2005-06
(In thousands of dollars)					
GROSS REVENUES					
Operating Revenues:					
Service Charges & Fees	$146,372	$146,369	$161,894	$170,228	$180,993
Wholesale Contracts	2,660	2,740	2,839	2,949	2,823
Other Service Charges & Miscellaneous	1,003	5,334	1,673	2,539	3,486
Total Operating Revenues	150,035	154,443	166,407	175,716	187,302
System Development Charges	7,320	9,242	8,271	9,361	12,464
Interest Earnings	4,211	1,612	2,585	3,531	6,060
Cash Transfers In -					
Rate Stabilization Fund (1)	5,275	0	362	0	0
Other Funds	4,496	3,560	3,003	3,164	2,946
TOTAL GROSS REVENUES (2)	$171,337	$168,858	$180,628	$191,772	$208,771
OPERATING EXPENSES (3)					
Personal Services	$25,932	$27,714	27,696	$29,510	$29,688
Materials and Services	20,657	14,595	20,785	15,590	16,890
Internal Services	21,326	29,810	28,406	29,293	32,696
Capitalized Overhead	(6,144)	(6,801)	(6,035)	(7,785)	(8,998)
Cash Transfers Out -					
General Fund Overhead	1,496	2,499	2,155	2,610	2,688
Rate Stabilization Fund	0	5,175	9,187	6,100	23,000
Other (4)	16,010	(477)	(3,259)	2,854	1,530
TOTAL OPERATING EXPENSES	$79,276	$72,515	$78,935	$78,172	$97,494
NET REVENUES	$92,060	$96,343	$101,694	$113,600	$111,278
DEBT SERVICE FOR COVERAGE					
First Lien Bonds	$61,379	$61,385	$56,576	$53,447	$61,932
Second Lien Bonds (5)	0	0	11,001	12,967	14,258
TOTAL DEBT SERVICE	$61,379	$61,385	$67,577	$66,414	$76,190
DEBT SERVICE COVERAGE					
With Rate Stabilization Transfers					
First Lien Bonds	1.50x	1.57x	1.80x	2.13x	1.80x
First and Second Lien Bonds	N/A	N/A	1.50x	1.71x	1.46x
Without Rate Stabilization Transfers					
First Lien Bonds	1.41x	1.65x	1.95x	2.24x	2.17x
First and Second Lien Bonds	N/A	N/A	1.64x	1.80x	1.77x

Notes:

(1) The Rate Stabilization Fund was created in FY 1987-88, under the authority of the First Lien Bond Ordinance.
(2) As defined in the First Lien Bond Ordinance.
(3) As defined in the First Lien Bond Ordinance. Excludes depreciation.
(4) Operating expenses in FY 2001-02 include an increase of $13.6 million in allowance for uncollectible debt associated with the OV billing system.
(5) Interest calculated as defined in Master Second Lien Bond Ordinance.

Source: Bureau of Environmental Services.

Table 19
CITY OF PORTLAND, OREGON
Sewer System
Projected Operating Results

Fiscal Year	Projected 2006-07	Forecast 2007-08	Forecast 2008-09	Forecast 2009-10	Forecast 2010-11	Forecast 2011-12
(In thousands of dollars)						
GROSS REVENUES						
Operating Revenues:						
Service Charges & Fees	$184,517	$191,991	$204,911	$217,527	$230,930	$245,130
Wholesale Contracts	3,207	3,316	3,429	3,546	3,667	3,792
Other Service Charges & Miscellaneous	2,813	4,307	2,573	2,662	2,755	2,851
Total Operating Revenues	190,537	199,614	210,913	223,735	237,352	251,772
System Development/Line & Branch Charges	9,100	11,066	11,672	12,308	12,976	13,678
Interest Earnings	14,492	12,722	9,418	11,117	8,415	4,774
Cash Transfers In -						
Rate Stabilization Fund (1)	5,000	1,000	10,025	2,550	22,450	17,250
Other Funds	4,969	4,491	4,647	4,808	4,975	5,148
TOTAL GROSS REVENUES (2)	$224,099	$228,893	$246,675	$254,519	$286,168	$292,623
OPERATING EXPENSES (3)						
Personal Services	$32,927	$35,081	$36,601	$38,626	$40,483	$42,728
Materials and Services	17,909	18,665	19,221	19,719	20,389	21,421
Internal Services	37,832	31,054	32,213	33,319	34,448	36,540
Capitalized Overhead	(7,500)	(7,102)	(7,311)	(7,525)	(7,746)	(7,973)
Cash Transfers Out -						
General Fund Overhead	3,852	4,507	4,816	5,078	5,350	5,637
Rate Stabilization Fund	5,250	10,100	2,205	2,315	0	0
Other	2,965	3,331	3,427	3,586	3,750	3,923
TOTAL OPERATING EXPENSES	$93,237	$95,637	$91,172	$95,118	$96,674	$102,276
NET REVENUES	$130,862	$133,256	$155,503	$159,401	$189,494	$190,346
DEBT SERVICE						
First Lien Bonds (4)	$75,981	$76,665	$92,035	$92,031	$125,480	$125,477
Second Lien Bonds (5)	24,693	24,515	27,624	28,296	20,328	20,973
TOTAL DEBT SERVICE	$100,674	$101,179	$119,659	$120,327	$145,807	$146,450
DEBT SERVICE COVERAGE						
With Rate Stabilization Transfers						
First Lien Bonds	1.72x	1.74x	1.69x	1.73x	1.51x	1.52x
First Lien and Second Lien Bonds	1.30x	1.32x	1.30x	1.33x	1.30x	1.30x
Without Rate Stabilization Transfers						
First Lien Bonds	1.73x	1.86x	1.61x	1.73x	1.33x	1.38x
First Lien and Second Lien Bonds	1.29x	1.34x	1.22x	1.31x	1.13x	1.17x

Notes:

(1) The Rate Stabilization Fund was created in FY 1987-88, under the authority of the First Lien Bond Ordinance.
(2) As defined in the First Lien Bond Ordinance.
(3) As defined in the First Lien Bond Ordinance. Excludes depreciation.
(4) Includes debt service on outstanding First Lien Bonds and an additional $196,375,000, $313,270,000 and $87,345,000 issued in FY 2007-08, FY 2009-10 and FY 2011-12, respectively, at assumed interest rates of 6.0 percent, 6.5 percent, and 6.5 percent, respectively.
(5) Includes projected debt service on outstanding variable rate Second Lien Bonds at an assumed interest rate of 5.0 percent (including broker/dealer fees) and an additional $44,105,000 of fixed rate Second Lien Bonds issued in FY 2007-08 at an assumed interest rate of 6.0 percent.

Source: Bureau of Environmental Services.

CITY ECONOMIC CHARACTERISTICS

The City, with an estimated July 1, 2006, population of 562,690, comprises an area of approximately 135 square miles in northwestern Oregon. Located astride the Willamette River at its confluence with the Columbia River, the City is the center of commerce, industry, transportation, finance and services for a metropolitan area with an estimated July 1, 2006, population of approximately 2.12 million. The City is the county seat of Multnomah County, and is the largest city in Oregon and the second largest city in the Pacific Northwest.

POPULATION

The population for the City has increased steadily over the past decade. The compounded annual rate of growth in population for the City from 1997 to 2006 was 1.13 percent compared to 0.92 percent for Multnomah County and 1.98 percent for the Portland MSA for the same period of time.

Table 20
CITY OF PORTLAND, OREGON
Population Estimate for the Last Ten Years

As of July 1	State of Oregon	City of Portland	Portland-Vancouver-Beaverton MSA [1]	Multnomah County	Washington County	Clackamas County
1997	3,302,140	508,500	1,779,200	646,260	385,000	317,700
1998	3,350,080	509,610	1,815,300	651,520	397,600	323,600
1999	3,393,410	512,395	1,841,200	656,810	404,750	326,850
2000	3,436,750	531,600	1,935,960	662,400	449,250	340,000
2001	3,471,700	536,240	1,960,500	666,350	455,800	345,150
2002	3,504,700	538,180	1,989,550	670,250	463,050	350,850
2003	3,541,500	545,140	2,019,250	677,850	472,600	353,450
2004	3,582,600	550,560	2,050,650	685,950	480,200	356,250
2005	3,631,440	556,370	2,082,240	692,825	489,785	361,300
2006	3,690,505	562,690	2,121,910 [2]	701,545	500,585	367,040
1997-2006 Compounded Annual Rate of Change	1.24%	1.13%	1.98%	0.92%	2.96%	1.62%
2002-2006 Compounded Annual Rate of Change	1.30%	1.12%	1.62%	1.15%	1.97%	1.13%

Note: The federal Census figures, as of April 1 of the stated year, are as follows:

	1980	1990	2000
State of Oregon	2,633,156	2,842,321	3,421,399
Multnomah County	562,647	583,887	660,486
City of Portland	368,139	438,802	529,121
Washington County	245,860	311,554	445,342
Clackamas County	241,911	278,850	338,391

(1) Portland State University Population Research Center defines the Portland-Vancouver-Beaverton Metropolitan Statistical Area (MSA) as Multnomah, Washington, Clackamas, Columbia and Yamhill counties in Oregon and Clark and Skamania Counties in Washington.

(2) Preliminary as of January 2007.

Source: Washington State Office of Financial Management; Portland State University, Center for Population Research. Under state law, the State Board of Higher Education must estimate annually the population of Oregon cities and counties so that shared revenues may be properly apportioned. The Center for Population Research and Census at Portland State University performs this statutory duty.

Portland-Vancouver-Beaverton Metropolitan Statistical Area

The Portland-Vancouver-Beaverton Metropolitan Statistical Area ("MSA") consists of Multnomah, Clackamas, Washington, Yamhill, and Columbia counties in Oregon, and Clark and Skamania counties in Washington. Metropolitan statistical areas are based on commuting patterns within a metropolitan area, and are used primarily for labor, employment and unemployment statistics.

Multnomah County encompasses the cities of Portland, Gresham, Troutdale, Fairview and Wood Village. Washington County contains Beaverton, Tigard, Tualatin and Hillsboro. Clackamas County includes Milwaukie, Oregon City, Lake Oswego and West Linn. The cities of St. Helens and Scappoose are located in Columbia County. Yamhill County includes McMinnville and Newberg. Clark County contains Vancouver and Camas. Skamania County includes Stevenson, Carson and Skamania. As a major transportation hub of the Pacific Coast with water, land and air connections, Multnomah and Washington counties serve expanding international markets and have experienced considerable growth.

INCOME

In recent years, per capita personal income in the MSA has been consistently higher than in the State of Oregon and the Nation.

The following table shows personal income and per capita income for the MSA compared to similar data for the State and Nation. The compounded annual rate of change in total personal income for the MSA from 1995 to 2004 was 5.38 percent. The compounded annual rate of change in per capita income for the PMSA was 3.47 percent from 1995 to 2004, compared with 3.57 percent for the State, and 4.07 percent for the nation.

Table 21
CITY OF PORTLAND, OREGON
Total Personal Income and Per Capita Income
MSA, Oregon, and the United States
1995 to 2005

	Total Personal Income (millions)	Per Capita Income		
Year	Portland-Vancouver-Beaverton MSA (1)	Portland-Vancouver-Beaverton MSA (1)	State of Oregon	USA
1995	43,598	24,924	22,293	23,076
1996	47,266	26,301	23,398	24,175
1997	50,912	27,672	24,469	25,334
1998	54,106	28,851	25,542	26,883
1999	56,918	29,858	26,480	27,939
2000	62,190	32,123	28,097	29,845
2001	63,933	32,345	28,502	30,575
2002	64,395	31,988	28,464	30,804
2003	65,629	32,152	28,734	31,472
2004	69,853	33,875	30,561	33,050
2005 (2)	N/A	N/A	32,174	34,495
1995-2004 Compound Annual Rate of Change	5.38%	3.47%	3.57%	4.07%

Notes:

(1) Income estimates for the revised Portland-Vancouver-Beaverton Metropolitan Statistical Area (MSA) are reflected in this table. The Portland-Vancouver-Beaverton MSA consists of Multnomah, Washington, Clackamas, Columbia and Yamhill counties in Oregon and Clark and Skamania Counties in Washington.

(2) 2005 data for Counties and Metropolitan Statistical Areas scheduled to be released on April 26, 2007.

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

LABOR FORCE AND UNEMPLOYMENT

The following table shows the annual average civilian labor force, employment level and unemployment level data that is available for the MSA for the period 1997 through 2006. The State of Oregon Employment Department reported a monthly unemployment rate in the MSA of 4.7 percent in December 2006.

Table 22
CITY OF PORTLAND, OREGON
MSA Labor Force and Unemployment Rates (1)

		Unemployment		
Year	**Resident Civilian Labor Force**	**Number**	**Percent of Labor Force**	**Total Employment (2)**
1997	1,043,762	43,017	4.1%	1,000,745
1998	1,064,295	44,477	4.2	1,019,818
1999	1,077,532	46,665	4.3	1,030,867
2000	1,075,916	48,327	4.5	1,027,589
2001	1,085,826	65,891	6.1	1,019,935
2002	1,105,881	87,975	8.0	1,017,906
2003	1,103,787	93,411	8.5	1,010,376
2004	1,094,180	78,374	7.2	1,015,806
2005	1,100,261	64,312	5.8	1,035,949
2006 (3)	1,138,600	53,800	4.7	1,084,800

Notes:

(1) The data in this table reflects the definition of the Portland-Vancouver-Beaverton MSA which consists of Multnomah, Washington, Clackamas, Columbia and Yamhill counties in Oregon and Clark and Skamania Counties in Washington.

(2) Includes non-agricultural wage and salary, self-employed, unpaid family workers, domestics, agricultural workers and labor disputants.

(3) The 2006 MSA Labor Force data is preliminary as of January 2007.

Source: Oregon Employment Department.

Table 23
CITY OF PORTLAND, OREGON
Average Annual Unemployment

Year	Portland-Vancouver-Beaverton MSA (1)	State of Oregon	USA
1997	4.1%	5.6%	4.9%
1998	4.2	5.7	4.5
1999	4.3	5.5	4.2
2000	4.5	5.2	4.0
2001	6.1	6.4	4.7
2002	7.8	7.6	5.8
2003	8.3	8.2	6.0
2004	7.2	7.4	5.5
2005	5.8	6.1	5.1
2006 (2)	4.7	5.3	4.5

Notes:

(1) This data reflects the definition of the Portland-Vancouver-Beaverton MSA which consists of Multnomah, Washington, Clackamas, Columbia and Yamhill counties in Oregon and Clark and Skamania Counties in Washington.

(2) The 2006 MSA Unemployment Rate is preliminary as of January 2007.

Source: Oregon Employment Department and U.S. Department of Labor – Bureau of Labor Statistics.

EMPLOYMENT BY INDUSTRY

The Portland metropolitan area has exhibited considerable economic diversity. The City is the service center for a large and diverse manufacturing area that has shown substantial growth since the 1980s. Because of the area's reliance on the City for related economic service activities, the manufacturing base of the surrounding area has a meaningful impact on the City's economy.

The Portland metropolitan area's manufacturing employment is largely based in the metals, instruments, machinery and electrical equipment sectors. The computer and electronic product manufacturing industry accounts for only 3.73 percent of the Portland metropolitan area's 2006 total non-farm employment.

Table 24
CITY OF PORTLAND, OREGON
Portland-Vancouver-Beaverton, Oregon MSA
Non-Farm Wage and Salary Employment (1) (2)
(000)

	2002	2003	2004	2005	2006 (3)	Percent of Nonfarm 2006
Nonfarm employment	**944,600**	**934,800**	**954,600**	**982,200**	**1,025,200**	**100.00%**
Manufacturing	**123,800**	**118,100**	**120,100**	**123,700**	**127,200**	**12.41**
Durable goods	92,800	87,900	90,100	94,000	97,500	9.51
Wood products	5,500	5,500	5,800	6,000	5,900	0.58
Metal manufacturing	18,300	17,100	17,600	18,600	19,000	1.85
Machinery manufacturing	8,800	8,400	8,300	8,200	8,600	0.84
Computer & electronic manufacturing	37,700	34,700	35,600	36,900	38,200	3.73
Transportation equipment manufacturing	7,700	7,600	8,000	9,000	9,500	0.93
Nondurable goods	31,000	30,200	30,000	29,700	29,700	2.90
Food manufacturing	8,700	8,700	8,600	8,500	8,800	0.86
Paper manufacturing	5,600	5,400	5,200	5,000	5,000	0.49
Non-manufacturing	**820,800**	**816,700**	**834,500**	**858,500**	**898,000**	**87.59**
Construction & mining	53,300	51,800	55,600	60,000	64,400	6.28
Trade, transportation & utilities	192,400	190,900	193,400	197,700	207,700	20.26
Information	23,800	22,500	22,500	22,700	23,200	2.26
Financial activities	65,600	66,400	66,100	67,600	68,700	6.70
Professional and business services	121,700	117,900	122,100	128,000	134,600	13.13
Education and health services	111,000	113,600	115,700	119,500	126,400	12.33
Leisure and hospitality	84,800	85,600	87,700	90,400	94,100	9.18
Other Services	33,900	34,000	34,700	34,600	34,900	3.40
Government	134,300	134,000	136,700	138,100	144,000	14.05

Notes:

(1) Totals may not sum due to rounding.

(2) This data reflects the definition of the Portland-Vancouver-Beaverton MSA which consists of Multnomah, Washington, Clackamas, Columbia and Yamhill counties in Oregon and Clark and Skamania Counties in Washington.

(3) 2006 Nonfarm employment for the MSA is preliminary as of January 2007.

Source: State of Oregon, Employment Department.

Table 25
CITY OF PORTLAND, OREGON
Major Employers in the Portland-Vancouver-Beaverton, Oregon MSA

Employer	Product or Service	2006 Estimated Employment
Private Employers		
Intel Corporation	Semiconductor integrated circuits	16,500
Providence Health System	Health care & health insurance	13,496
Safeway Inc.	Grocery chain	13,000
Fred Meyer Stores	Grocery & retail variety chain	10,500
Kaiser Foundation of the Northwest	Healthcare	8,747
Legacy Health System	Nonprofit health care	8,500
NIKE Inc.	Sports shoes and apparel	5,500
Wells Fargo	Bank	5,000
U.S. Bank	Bank & holding company	4,138
Freightliner LLC	Heavy duty trucks	4,000
United Parcel Service (UPS)	Package Delivery	3,900
Southwest Washington Medical Center	Health care	3,200
McDonald's Corporation	Fast food franchise	3,000
Precision Castparts Corporation	Steel castings	2,110
Tektronix Inc.	Electronic instruments	1,820
Hewlett-Packard Co.	Computer printers	1,800
Public Employers		
State of Oregon	Government	21,600 (1)
U.S. Government	Government	18,200 (1)
Oregon Health and Science University	Health care & education	11,300
City of Portland	Government	5,498
Portland Public Schools	Education	5,047
Portland State University	Education	4,000
Beaverton School District	Education	3,886
Portland Community College	Education	3,400

Notes:

(1) Total may include part-time, seasonal and temporary employees.

Source: State of Oregon Employment Department and Portland Business Alliance 2005-2006 as of January 2007.

DEVELOPMENT ACTIVITY

In Clackamas, Multnomah and Washington counties, there are approximately 6,000 business, according to the "Portland Metropolitan Fact Book - 2006" published by Portland Oregon Visitor's Association.

A diverse mix of industrial properties is located throughout the Portland area for all types of industrial use, including more than 280 industrial and business parks.

Just west of the City, the Sunset Corridor has emerged as the center for Oregon's high technology industry and has drawn extensive investment in recent years. This area parallels a major east/west highway (U.S. Highway 26) in the western metropolitan area. The Interstate 5 ("I-5") Corridor, which extends from S.W. Portland to the City of Wilsonville along I-5, includes some of the area's most rapidly-growing distribution and warehouse operations.

Third quarter 2006 market data provided by Cushman & Wakefield show an overall office vacancy rate for the Portland region of 10.8 percent in the Central Business District and of 13.1 percent in the Portland region overall. For the third quarter 2006, market data provided by Cushman & Wakefield show that the industrial overall vacancy for the Portland metropolitan area was 6.2 percent.

Current activities showing retail, commercial and industrial changes in the Portland metropolitan area are reflected in the following building and economic development projects.

Development within Downtown Portland

In February 2005 the Portland Development Commission ("PDC") updated the plan for the Montgomery Blocks Development. The Montgomery Blocks are three blocks in the University District. The total estimated cost for Blocks 161, 153 and 152 is $124 million. Portland State University ("PSU") plans to begin construction on Block 161 in mid to late 2007. Block 161 will have 280,000 square feet of office/institutional space and 15,000 square feet of retail space. Block 153 is expected to be 11-14 stories with 204 condominiums, and 12,650 square feet of retail space. Hoffman Corp anticipates construction of Block 153 to begin in mid 2007.

Equity Office plans to build a 15-story office building with ground floor retail. Amenities in the new building on First and Main Street include a 3,000-square-foot bicycle hub. Equity Office purchased the property for the building in March 2005. If plans for the building are approved construction could be complete as early as 2009.

The Oak Tower on Oak Street along SW 3rd Avenue will be developed by Tramwell Crow Residential. The property was purchased by the PDC in 2002. The current plan for Oak Tower has the completion of a 31-story 219 condominium tower by early 2009.

May Department Stores Co. (now Federated Department Stores), Sage Hospitality Resources ("Sage"), and the PDC are working together on a $106 million project that will redevelop the Meier & Frank store building in downtown Portland. Meier & Frank has consolidated its store to the first five floors. Sage plans to convert floors 6 through 16 of the building to a 331-room Starwood Luxury Collection hotel. There are also plans for a face-lift to restore the outside of the building. Completion is anticipated in early 2008.

Tom Moyer's firm, TMT Development, will break ground in the fall of 2007 on Park Avenue West. Park Avenue West is a mixed use building with 280,000 square feet of office space, three floors of retail, 85 housing units and 350 underground parking spaces.

Reliance Development and Williams & Dame Development are building The Harrison, a three condominium tower community with a total of 537 condominiums and 24 townhomes with floor-to-ceiling windows. Residents began moving into Harrison East, in early 2007. Construction of all towers is expected to be complete in September 2008.

The Casey is being developed by Gerding/Edlen Development on the corner of NW 12th and Everett, with 61 condominiums within a 16-story tower. Construction is expected to be complete in late 2007.

Octagon Development is building the $30 million, 26-story, Benson Tower on SW 11th Avenue. The Benson Tower will have 168 condominiums and is expected to be finished in February or March 2007.

Opus Carroll LLC is building Ladd Tower. The 21-story mixed-use residential tower will offer approximately 190 units along the south Park blocks. Opus Carroll broke ground on the Ladd Tower in the fall of 2006.

Construction was completed on the Eliot Tower at 10th and Jefferson in mid-2006. The 18-story tower consists of 223 condominiums.

Sockeye Development and GBD Architects teamed up to build the Madison Office Condominiums. The Madison building was completed in October 2006 and includes five floors, four consisting of office condominiums and retail on the ground floor.

The U.S. General Services Administration finished construction of a $23.4 million, five-space parking lot for 9th U.S. Circuit Court of Appeals judges in the Pioneer Courthouse basement in December 2005. The construction project also involved building a driveway to reach the parking area as well as renovation, restoration and seismic strengthening.

South Waterfront /North Macadam District

The North Macadam area was the last large piece of undeveloped land close to the downtown area when it was designated as an urban renewal district by the City in August 1999. The area comprises 409 acres, and is approximately defined by Boundary Street on the south; Macadam Avenue and Hood Street on the west; Montgomery Street on the North; and the Willamette River on the east.

Construction of the John Ross Condominium Tower began in mid 2005. The 31-story elliptical shaped building with 286 units is expected to cost $75 million. By mid-July 2005, 225 units were reserved. Construction is expected to be completed in early 2008.

The Atwater will be a 23-story building offering 212 homes ranging in price from $399,000 to $3.9 million. The Atwater will be located along Bancroft Street on the waterfront and is scheduled to be complete in early 2008.

The RiverPlace Project, located within the South Waterfront portion of the North Macadam urban renewal area, is a mixed-use development on 73 acres along the west bank of the Willamette River, with apartments, restaurants, shops and office space. Construction of The Strand, a $110 million mixed use development, began in early 2005. The Strand will consist of three glass and steel towers which will house 222 condominium units, ground-level town homes, a 110-space parking garage, a waterfront restaurant, and retail space. Completion is projected to be early 2007.

The Portland Aerial Tram ("Tram") opened in January 2007. The Tram, which is owned by the City and operated by OHSU, links OHSU's North Macadam offices and its Marquam Hill campus. Its two 79-passenger cars and construction of approximately 1 mile of cable and support cost approximately $57 million.

OHSU in cooperation with Gerding/Edlen Development finished a 16-story, 400,000-square-foot Center for Health and Healing in November 2006.

Gerding/Edlen Development Co. and Williams & Dame Development constructed the Meriwether condominiums, an $81 million, twin-towered residential project. The 246-unit project is the first residential project in the waterfront neighborhood. Residents began moving into the tower in May 2006.

The Portland Streetcar Inc. opened a 0.6-mile extension from PSU to RiverPlace in early March 2005. Service began in July 2006 on the Gibbs Extension. This 0.6 mile extension connects at SW River Parkway and SW Moody, follows SW Moody south to SW Sheridan and from SW Sheridan to SW Gibbs, utilizing the former Willamette Shore trolley rail right-of-way. The cost of this extension was $15.8 million, which includes the purchase of three additional streetcars.

The River District, Pearl District, and Old Town

Located north of the central business district and east of Interstate 405, the River District urban renewal area is comprised of approximately 310 acres bounded generally by Burnside Street on the south, NW 16th Avenue on the west, the northern end of the Terminal One site on the north, and the Willamette River and the boundaries of the Downtown Waterfront urban renewal area on the east.

Bill Naito Corp. with Pemcor Investment Corp. and Grancorp Inc. started construction of two condominium towers in October 2005. The two 10-story towers will adjoin Albers Mill and are called the Waterfront Pearl. The Waterfront Pearl will offer 180 condominiums starting at $350,000. The first tower is scheduled to be finished in mid to late 2007.

Hoyt Street Properties is developing the Metropolitan, a 19-story, 121-condominium complex on NW 10th Avenue. Occupancy is expected in fall 2007.

Developer Robert Ball is building the Wyatt, a 15-story condominium complex. The Wyatt with 244 condos is expected to be complete in fall 2007.

Portland Center Stage converted the Armory building in anticipation of a move from downtown Portland to the Pearl District. The $36.1 million theater project opened for performances in late 2006. The performance hall is the first ever historic rehabilitation to receive a LEED (Leadership in Energy and Environmental Design) Platinum Rating.

The Yards at Union Station is a four-phase project with 700 new units of market rate and affordable housing. Construction of the Yards at Union Station was complete in mid 2006.

In the Pearl District (located within the River District urban renewal area), Gerding/Edlen Development purchased the former Blitz Weinhard Brewery, a five-block complex, known as the "Brewery Blocks," adjoining Burnside Street for $20 million. The firm completed redevelopment of the property into a mixed-use retail, commercial and housing complex in fall 2006.

North Portland

The $10 million Killingsworth Station project includes affordable one- and two-bedroom rental units, affordable loft-style condominiums, ground floor commercial space, townhomes, and ground floor retail/office space along Killingsworth and Interstate Avenue, and structured parking. Construction is scheduled to begin in spring 2007.

Construction on the Sitka, a 5-story affordable apartment building with 210 units on NW Northrup was completed in summer 2006.

In February 2006, the $7.9 million Clara Vista Townhomes project on NE Killingsworth was completed. The PDC rehabilitated the Villa de Clara Vista apartments adding 44 new townhomes and rehabilitating 133 rental units.

Kaiser Permanente opened a $27 million radiation treatment center at its north Portland campus in January 2006. The center is a 17,000 square-foot, one-story building, along with a two and a half-story parking structure.

Westside Development

Construction of the Westerly began in early 2006. The new 14-story condominium tower will offer 104 units ranging from $200,000 to $1.2 million. Construction is scheduled to be finished in mid 2008.

In May 2005 the PDC approved a 14-story, 104-unit, condominium tower to be built by ScanlanKemperBard Co. The estimated $40 million building will be located at NW Westover Road and 24th Place and is expected to be complete in the summer of 2008.

The Gerding/Edlen Development Corporation and the Housing Authority of Portland are building The Civic, a complex with 261 market-rate condos, 140 apartments and retail space. Construction is expected to be complete in 2007.

Doernbecher Children's Hospital started expansion of the pediatric cancer treatment unit. The $14 million project will expand the unit from 3,000 to 7,000 square feet and from 16 beds to 21. The project is scheduled to be completed in July 2007.

Dove Lewis completed construction of their new $6.6 million animal hospital in July 2006. The new hospital has 22,000 square feet of space, eight exam rooms, 96 beds and two surgery suites.

The Vaux, a high-end apartment building, was completed in July 2006. The $42 million, 26 story, 242,000-square-foot, Vaux is located in Portland's Nob Hill District and offers 145 units.

In June 2006 OHSU and Hoffman-Anderson Joint Venture finished construction of a 335,000-square-foot Peter O. Kohler Pavilion. The Peter O. Kohler added 120 beds to the OHSU health system and 450 parking spaces.

In late 2005, construction of the $113.4 million, 274,000-square-foot, OHSU Biomedical Research building on the Marquam Hill campus was completed. The $216 million, 335,000-square-foot, 146 bed, Patient Care Facility was completed in mid-2006.

Eastside Development

Providence Portland Medical Center is building a parking garage and a 450,000-square-foot, 11-story medical facility with consolidated cancer services. The garage will have three-levels, 635 spaces, and will be adjacent to the clinic. Of those spaces, 480

will be available to park-and-ride transit customers, replacing the current surface spaces, and 155 will be reserved for clinic employees and patients. The facility will provide 124 additional beds and a comprehensive cancer center with 207 employees. Construction will cost an estimated $31 million. Construction is expected to be complete in early 2008.

The PDC approved a loan of $2.4 million to aid The Heritage Building LLC in refinishing the Heritage Building on NE Martin Luther King Junior Boulevard. The building includes 12,900 square feet of office space and 8,100 square feet of restaurants or shops. The building was finished in late 2006.

The Huynh family, owners of the Portland Beauty School, built a $6 million Asian American Shopping Center on NE 82nd Avenue. The center occupies two acres and construction was finished in October 2006.

Aiyana Weidler began construction of a $36 million, mixed-use development called 1620 Broadway in October 2003. The project features 225,000 square feet of living and shopping space, including 88 condominiums and three levels of underground parking. Construction was completed in spring of 2005.

The Columbia Corridor

The Columbia Corridor is a major growth opportunity for industrial development in Portland. The Corridor contains nearly 4,700 acres of vacant industrial land along a 16-mile stretch of land that runs along the southern shore of the Columbia River and includes marine terminals and the international airport.

The Rivergate Industrial Park is a 3,000-acre area owned by the Port of Portland (the "Port") in North Portland. In addition to Rivergate's access to the Columbia River and Portland International Airport ("PDX"), the area qualifies local businesses for participation in the Enterprise Zone and related tax incentives. The purpose of the City's Enterprise Zone is to stimulate business investment in North and Northeast Portland. In an attempt to hire and retrain Enterprise Zone residents for quality jobs, the PDC has set up this program to reward businesses that provide local jobs. Businesses who participate can make use of a property tax exemption from new taxes generated during the first three to five years of a non-retail business investment in the Enterprise Zone. The boundaries of the Enterprise Zone include north and northeast Portland residential, commercial and industrial land west of Interstate 205 and north of Broadway Street.

Cascade Station will be a 120-acre mixed use development of office, hotel and retail spaces. Trammell Crow expects to open the Village at Cascade Station with IKEA and Costco Home in summer 2007. IKEA plans to employ more than 350 people when their Portland store opens.

Work on improvements for the floating dock of Terminal 6, which Honda uses to bring in 87,000 autos every year, is expected to be complete in mid-2007. The Port of Portland awarded $2.52 million for construction on the floating dock, which will be constructed of porous rain water filtering blacktop. The construction will extend crane rails and add a new crane to the Terminal.

Zim American Integrated Shipping Services Co. started routing their Asia-Mediterranean-Pacific ocean container service through Portland in May 2006. The service will provide additional container shipping capacity and approximately 106 new jobs.

In July and August 2006, Oregon Steel Mills opened two new spiral-weld pipe mills near their steel rolling mill. The new mills are expected to bring close to 150 new jobs to Portland. In November 2006, Evraz Group S.A. ("Evraz") signed an agreement to purchase and merge with Oregon Steel Mills. Evraz is one of the largest vertically-integrated steel and mining businesses with operations mainly in Russia. Upon completion of the transaction, Oregon Steel Mills will become a subsidiary of Evraz.

AGRICULTURE

Because the City is the primary urban center in the State, agriculture is not a major industry in the greater metropolitan area. However, because the Portland-Vancouver-Beaverton MSA is geographically diverse the metropolitan area accounted for approximately 23.8 percent of the State's Gross Farm and Ranch Sales based on 2005 estimates from the Oregon State University Extension Economic Information Office. Clackamas County ranked second and Yamhill and Washington counties ranked third and fourth among all counties in the State in Gross Farm and Ranch Sales.

The 2005 Gross Farm and Ranch Sales in Clackamas County was $361,918,000; Washington County was $274,884,000; Yamhill County was $264,038,000 and Multnomah County was $77,744,000; as estimated by the Oregon State University Extension Service.

TRANSPORTATION AND DISTRIBUTION

Location and topography have established Portland as a leading warehousing and distribution center for the Pacific Northwest. The City's location at the head of deep-water navigation on the Columbia River system gives it substantial geographic and, therefore, economic advantages for the shipment of freight.

The Port is a port district encompassing Multnomah, Clackamas and Washington counties. The Port owns and maintains four marine terminals, four airports, and seven business parks. In tonnage of total waterborne commerce, the Port is currently ranked as the third largest volume port on the West Coast. Leading exports include wheat, soda ash, potash and hay. The Port is the largest wheat export port in the United States. Leading imports include automobiles, petroleum products, steel and limestone. The Port is the largest volume auto handling port and mineral bulks port on the West Coast. Total maritime tonnage increased in 2006 to 12 million short tons compared to 11.6 million in 2005.

The Columbia River ship channel is maintained at a depth of 40 feet from the Portland Harbor to the Pacific Ocean 110 miles downstream. The City is a regular port of call for 16 regularly scheduled major steamship lines serving major world trade routes. Six Oregon and Washington port districts joined to fund a five-year, study of the feasibility of deepening the shipping channel of the Columbia River from 40 feet to 43 feet, in order to accommodate larger, more efficient vessels. The project cost is estimated at approximately $134 million. Primary cargoes include containers, automobiles, grain, and mineral bulks.

The Columbia River Channel Deepening Project will provide local and national transportation and trade improvements. The total cost of the proposed project is $150.5 million. The states of Oregon and Washington have appropriated $27.7 million each in matching funds for the local cost share, and the remaining funding will come from federal appropriations. On June 25, 2005, a U.S. Army Corp of Engineers contractor began deepening the navigating channel in selected areas near the mouth of the Columbia River. Because significant areas of the Columbia River are naturally deeper than what the new channel requires, only specific areas will require dredging.

Upstream from the City, the Columbia River provides the only water route through the Cascade Mountains to the agricultural regions of eastern Oregon, Washington, and northern Idaho. This region has been opened to slack-water barge navigation by means of locks installed in a series of federal hydroelectric projects on the lower Columbia River and its largest tributary, the Snake River. There are three primary barge lines providing service between the upriver ports and the City. In addition, the Columbia River Gorge forms a corridor through the Cascades which, because it is level, provides an economical rail and highway route between the City and the region east of the mountains.

The City is also in a strategic position to serve the Willamette Valley, which extends approximately 145 miles south from the City and is one of the nation's most diversified and productive agricultural regions and food processing centers.

PDX handles more than 13 million passengers annually. In November 2006, 1.13 million passengers enplaned and deplaned at PDX. Portland is served by 20 passenger carriers providing about 600 flights daily. In 2006, Portland's Zimmer Gunsul Frasca Partnership received a $1.6 million contract to design a second 3,000-space parking garage for PDX. Construction could be completed as early as 2009. Portland is also served by three publicly operated general aviation airports located in the suburban areas.

Two major railroads—the Burlington Northern Santa Fe and Union Pacific—plus the Amtrak passenger train system, serve the City.

Transportation is facilitated by a highway system that includes Interstate-5, the primary north-south highway artery of the West Coast, and by-pass routes Interstate 205 and Interstate 405 within and around Portland. The primary east-west highway system is Interstate 84, which begins at Portland and heads east along the Columbia River to Idaho and beyond. The Portland metropolitan area is also served by U.S. highways 26 and 30, Oregon highways 43, 213, 217, 224, 99E, 99W, the Tualatin Valley Highway, the historic Columbia River Highway, nine bridges across the Willamette River and two bridges across the Columbia River.

The Tri-County Metropolitan Transportation District of Oregon ("TriMet"), the regional public transit agency, provides rail and bus service through the 575 square miles in the area. In 2006, passengers boarded a TriMet bus or train approximately 95.7 million times.

TriMet's light rail system ("MAX") connects the cities of Portland, Gresham, Beaverton and Hillsboro, and PDX. The most recent extension of the light rail line, the Interstate MAX line, added 5.8 miles of service from the Rose Quarter and Oregon Convention Center into North Portland neighborhoods, medical facilities, and the Metropolitan Exposition Center. Service on the Interstate MAX began in May 2004.

In 2007, TriMet intends to start construction of an 8.3 mile, two-phased extension of the light rail line. The estimated cost of the project is $494 million. One phase would provide service along Interstate-205 between Clackamas Town Center and the existing Gateway station. Service could begin as early as 2009. TriMet is also adding a north/south section to the Portland Mall to accommodate additional MAX light rail lines. The new addition will allow for extension to PSU, Clackamas and Washington counties. When TriMet finishes with construction in 2009 a new MAX green line will run the length of the mall from Union Station to PSU.

TriMet began construction of the $103.5 million Washington County Commuter Rail in late 2006. This line will run from Beaverton to Wilsonville and is expected to begin service in 2008.

The Portland Streetcar, which connects the downtown area with the Pearl District and Northwest Portland, began operations in 2001. The Portland Streetcar is owned and operated by the City, which has entered into contracts with TriMet for train operators and mechanics. Construction of the Gibbs extension of the streetcar line to the South Waterfront District was completed in the fall of 2005; service began in late 2006 following development of major components in the area.

TOURISM, RECREATION AND CULTURAL ATTRACTIONS

Portland is the State's largest city and the center of business and transportation routes in the State. Therefore, the City accommodates a large share of the State's tourist and business visitors. The City is a destination for many tourists who are drawn to its diverse cultural and recreational facilities. These include the Oregon Symphony and associated musical organizations, Portland Center for the Performing Arts, Oregon Ballet, Portland Opera, Portland Art Museum, Oregon Historical Society Museum, Children's Museum, OMSI, Forest Discovery Center (formerly World Forestry Center), Japanese Gardens, International Rose Test Gardens, the Classical Chinese Garden and the Oregon Zoo. The metropolitan area includes more than 40 other local theater and performance art companies and ten additional gardens of special interest. Portland is the home of Forest Park, the largest urban park in the United States with a total of more than 5,000 acres.

The National Basketball Association ("NBA") Portland Trail Blazers play at the Rose Garden Arena complex (which includes the Memorial Coliseum), as do the major-junior Western Hockey League ("WHL") Portland Winterhawks. PGE Park, which was renovated and reopened in 2001, is home to the Portland Beavers (Triple-A), the Portland Timbers (A-League soccer), and the Portland State Vikings (Division I college football and women's soccer). A prime tourist attraction for the City, known as the City of Roses, is the three-week long Portland Rose Festival held each June, since 1907. More than two million participants enjoy the Festival annually.

According to the "Portland Metropolitan Region Fact Book - 2006," published by Portland Oregon Visitor's Association ("POVA"), the total retail sales in the Portland metropolitan area in 2006 was $29.2 billion.

According to "Trends in the Hotel Industry", published by Wolfgang Rood Hospitality Consulting, lodging occupancy rates for downtown Portland were 76.1 percent in January through November 2006, a 0.4 percent increase over January through November 2005.

A 90-minute drive from Portland in almost any direction provides access to numerous recreational, educational, and leisure activities. The Pacific Ocean and the Oregon Coast to the west, the Columbia Gorge and Mt. Hood, Mt. St. Helens and Mt. Adams in the Cascade Range to the east, and the Willamette Valley to the south offer opportunities for hiking, camping, swimming, fishing, sailboarding, skiing, wildlife watching, and numerous other outdoor activities.

HIGHER EDUCATION

The City is the educational center for the State of Oregon. Within the Portland metropolitan area are several post-secondary educational systems.

PSU is located on a campus encompassing an area of over 28 blocks adjacent to the downtown business and commercial district of Portland. PSU offers over 100 undergraduate, masters, and doctoral degrees, as well as graduate certificates and continuing education programs. Fall 2006 enrollment was approximately 25,000 students. PSU is noted for the development of programs specifically designed to meet the needs of the urban center.

Oregon State University and the University of Oregon, with the other two major universities in the Oregon State System of Higher Education, have field offices and extension activities in the Portland metropolitan area.

OHSU's Marquam Hill campus sits on more than 100 acres overlooking downtown Portland. OHSU includes the schools of dentistry, medicine, nursing, and science and engineering. OHSU also includes Doernbecher Children's Hospital and OHSU Hospital, as well as primary care and specialty clinics, research institutes and centers, interdisciplinary centers, and community service programs. Each year, OHSU serves approximately 175,700 medical and dental patients and educates more than 3,900 students and trainees in health information technology, sciences, environmental engineering, computation and management. Competitive funding awards have nearly quadrupled during the last decade; OHSU receives more than $260 million annually. In 2006, OHSU employed 11,300 people. See also "DEVELOPMENT ACTIVITY -- South Waterfront /North Macadam District".

Independent colleges in the Portland metropolitan area include Lewis & Clark College, University of Portland, Reed College, Linfield College-Portland Campus, ITT Technical Institute and Marylhurst University; and several smaller church-affiliated schools, including Warner Pacific College, Concordia University, George Fox University, and Cascade College. Portland Art Institute, Western Culinary Institute, Western States Chiropractic College, Oregon College of Oriental Medicine, National College of Naturopathic Medicine, and East-West College of the Healing Arts are also located in the City.

Several community colleges serve the Portland metropolitan area including PCC, Mt. Hood Community College, and Clackamas Community College.

UTILITIES

Electricity is provided by Portland General Electric ("PGE") Company and Pacific Power Company. Low-cost hydroelectric power provides a substantial portion of the area's energy requirements. PGE owns and operates eight hydroelectric power plants, and has a total net peaking capacity of 3,900 megawatts from available resources, with nearly 50% from hydroelectric sources. NW Natural distributes natural gas. Telephone services are provided by Qwest Communications and, in some areas, Verizon Communications.

PUBLIC FACILITIES

Water

The City's Water Bureau operates the water supply system that delivers drinking water to approximately 770,000 people in the Portland metro area. The primary water source is the Bull Run Watershed, located in the foothills of the Cascades west of Mt. Hood. Portland also uses groundwater as a supplemental water supply.

The City, along with Metro and 26 other metropolitan area cities and water districts, participates in the Regional Water Providers Consortium. The Consortium works together through a voluntary intergovernmental agreement to coordinate and implement the Regional Water Supply Plan and to address water supply and resource management issues affecting the region. The City provides technical planning and administrative staff to the Consortium through the City's Water Bureau through an intergovernmental agreement.

Sewer and Wastewater

The City owns, operates and maintains sanitary and storm water collection, transportation, and treatment systems within its boundaries. The service area is located on both sides of the Willamette River, extending approximately 20 miles south of its confluence with the Columbia River. It is generally bounded on the west by low-lying hills paralleling the Willamette River, by other service areas serving the City metropolitan area to the south, by the City of Gresham to the east, and by the Columbia River to the north. The City provides sanitary sewer service to approximately 563,000 people, numerous commercial and industrial facilities, and several wholesale contract customers located adjacent to the City.

During rainstorms, the collection system exceeds the capacity of the interceptor system that conveys sewage to the Columbia Boulevard treatment plant, resulting in overflows of untreated sewage directly into the Willamette River and the Columbia Slough. Under a 1991 agreement between the City and the Oregon Department of Environmental Quality, the City has undertaken the Combined Sewer Overflow ("CSO") program to remedy this situation. Costs are estimated at more than $1.4 billion to be invested over 20 years. In July 2005 the tunnel for the West side big pipe project was completed. In February 2006, the CSO project design for the final phase of the East side of the CSO project was completed. Construction of major CSO projects will continue until 2011.

HOUSING

The year-to-date median selling price of a home in metropolitan Portland for December 2006 was $270,500, up 13.9 percent from $237,500 in December 2005, according to the Realtors Metropolitan Area Multiple Listing Service ("RMLS"). Homes in the metropolitan area were on the market an average of 43 days in December 2006. According to RMLS, in December 2006, the Southeast Portland region was the most active, with 4,446 closed sales year-to-date.

OTHER ECONOMIC FACTORS

The following table shows various economic indices for the City over the past ten years.

Table 26
CITY OF PORTLAND, OREGON
Various Economic Indices
for Fiscal Years Ending June 30

	Commercial Construction		Residential Construction		Total Construction		
Fiscal Year	No. of Permits	Value	No. of Permits	Value	No. of Permits	Value	Bank Deposits ($000)
1997	3,378	$690,910,81	4,343	$157,497,045	7,721	$848,407,861	$14,281,503
1998	4,089	778,910,533	4,153	166,479,499	8,242	945,390,032	12,942,696
1999	3,746	712,690,707	4,128	164,598,675	7,874	877,289,382	14,529,741
2000	3,628	685,894,883	4,390	166,029,804	8,018	851,924,687	15,667,859
2001	3,524	693,494,820	5,304	227,161,633	8,828	920,656,453	12,978,750
2002	3,394	702,312,602	5,676	286,907,402	9,070	989,220,004	16,214,809
2003	3,738	647,952,470	6,008	314,138,287	9,746	962,090,757	18,455,222
2004	3,485	819,507,836	6,105	329,706,927	9,590	1,149,214,763	11,223,521
2005	4,022	872,050,904	6,216	341,898,757	10,238	1,213,949,661	11,283,590
2006	4,080	1,188,470,13	6,951	400,611,108	11,031	1,589,081,246	12,752,436

Sources:

Building:
City of Portland, Bureau of Development Services. Data is collected on a fiscal year basis and includes new construction and alterations. Permit data shown is for the City of Portland *only*.

Bank Deposits:
Oregon Department of Consumer and Business Services.

THE INITIATIVE PROCESS

The Oregon Constitution, Article IV, Section 1, reserves to the people of the State the initiative power to amend the State constitution or to enact State legislation by placing measures on the statewide general election ballot for consideration by the voters. Oregon law therefore permits any registered Oregon voter to file a proposed initiative with the Oregon Secretary of State's office without payment of fees or other burdensome requirements. Consequently, a large number of initiative measures are submitted to the Oregon Secretary of State's office, and a much smaller number of petitions obtain sufficient signatures to be placed on the ballot.

Because many proposed initiative measures are submitted which do not qualify for the ballot, the City does not formally or systematically monitor the impact of those measures or estimate their financial effect prior to the time the measures qualify for the ballot. Consequently, the City does not ordinarily disclose information about proposed initiative measures that have not qualified for the ballot.

PROPOSED INITIATIVES WHICH QUALIFY TO BE PLACED ON THE BALLOT

To be placed on a general election ballot, the proponents of a proposed initiative must submit to the Secretary of State initiative petitions signed by a number of qualified voters equal to a specified percentage of the total number of votes cast for all candidates for governor at the gubernatorial election at which a Governor was elected for a term of four years next preceding the filing of the petition with the Secretary of State. For the 2006 general election, the requirements were eight percent (100,840 signatures) for a constitutional amendment measure and six percent (75,630 signatures) for a statutory initiative. Any elector may sign an initiative petition for any measure on which the elector is entitled to vote.

The initiative petition must be submitted to the Secretary of State not less than four months prior to the general election at which the proposed measure is to be voted upon. As a practical matter, proponents of an initiative have approximately two years in which to gather the necessary number of signatures. State law permits persons circulating initiative petitions to pay money to persons obtaining signatures for the petition. If the person obtaining signatures is being paid, the signature sheet must contain a notice of such payment.

Once an initiative measure has gathered a sufficient number of signatures and qualified for placement on the ballot, the State is required to prepare a formal estimate of the measure's financial impact. Typically, this estimate is limited to an evaluation of the direct dollar impact only.

Historically, a larger number of initiative measures have qualified to be placed on the ballot than have been approved by the electors. According to the Elections Division of the Oregon Secretary of State, the total number of initiative petitions that have qualified for the ballot and the numbers that have passed in recent general elections are shown in the following table.

Table 27
CITY OF PORTLAND, OREGON
Initiative Petitions that Qualified and Passed
1990-2006

Year of General Election	Number of Initiatives that Qualified	Number of Initiatives that Passed
1990	8	3
1992	7	1
1994	16	8
1996	16	4
1998	10	6
2000	18	4 (1)
2002	7	3
2004	6	2
2006	10	3

Notes:

(1) On October 4, 2002, the Oregon Supreme Court ruled that Measure 7 is unconstitutional, and it has not been included in the number of initiatives that passed.

Source: Elections Division, Oregon Secretary of State.

MEASURE 37 PASSED BY THE VOTERS IN NOVEMBER 2004

Oregon voters approved citizen initiative petition Measure 37 on November 2, 2004. Measure 37 became effective on December 2, 2004, and is codified as Oregon Revised Statutes (ORS) 197.352.

Measure 37 entitles a property owner to either compensation or relief from certain land use regulations (the Restrictions) if the owner can show (a) the Restrictions were adopted after the owner acquired the affected property, and (b) the Restrictions have restricted the owner's use of the property and reduced its value. The government body that enacted or enforced the Restrictions decides whether to pay the claim or waive the Restrictions.

"Restrictions" do not include the regulation of nuisances, regulations that protect public health and safety, regulations that are required to comply with federal law; regulations restricting or prohibiting the use of a property for the purpose of selling pornography or performing nude dancing, and regulations that were enacted before the current property owner (or a member of that owner's family) acquired the property.

If a land use regulation continues to apply to the owner's property more than 180 days after the owner has made written demand for compensation, the owner may file a cause of action for compensation in the circuit court and the owner is entitled to reasonable attorney fees, expenses, costs, and other disbursements. If claims are not paid within two years after they accrue, Measure 37 releases the land from the Restrictions. It is not clear whether the governments imposing the Restrictions have any residual liability after that point.

The City has enacted Restrictions, and as of January 4, 2007, has received 91 claims. Of this number, two (one partial) have been approved by the Council, ten (one partial) have been denied, six have been withdrawn, eleven have been placed on hold and 62 are in various stages of the review process. To date, for the two claims the City has approved, the City has paid no monetary compensation but has opted to release properties from the challenged Restrictions. Of the remaining unresolved claims, the amount being demanded is approximately $259.6 million.

Although in February of 2006 the Oregon Supreme Court upheld the constitutionality of Measure 37, many questions remain about the meaning of Measure 37 and the effect of its provisions. To date, the Oregon Legislature has not adopted legislation resolving these questions, and no significant judicial precedents are available that construe its meaning. Therefore City cannot predict how it will be affected by the measure.

FUTURE INITIATIVE MEASURES

The recent experience in Oregon is that many more initiative measures are proposed in some form than receive the number of signatures required to be placed on a ballot. Consequently, the City cannot accurately predict whether specific future initiative measures that may have an adverse effect on the City's financial operations will be proposed, obtain sufficient signatures, and be placed on a ballot for voter approval, or if placed on a ballot, will be approved by voters.

The Oregon Secretary of State's office maintains a list of all initiative petitions that have been submitted to that office. The office can be reached by telephone at (503) 986-1518.

TAX EXEMPTION

In the opinion of Kirkpatrick & Lockhart Preston Gates Ellis LLP, Bond Counsel, interest on the 2007 Series A Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, interest on the 2007 Series A Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations.

Federal income tax law contains a number of requirements that apply to the 2007 Series A Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the use of proceeds of the 2007 Series A Bonds and the facilities financed or refinanced with proceeds of the 2007 Series A Bonds and certain other matters. The City has covenanted to comply with all applicable requirements.

Bond Counsel's opinion is subject to the condition that the City comply with the above-referenced covenants and, in addition, will rely on representations by the City and its advisors with respect to matters solely within the knowledge of the City and its advisors, respectively, which Bond Counsel has not independently verified. If the City fails to comply with such covenants or if the foregoing representations are determined to be inaccurate or incomplete, interest on the 2007 Series A Bonds could be included in gross income for federal income tax purposes retroactively to the date of issuance of the 2007 Series A Bonds, regardless of the date on which the event causing taxability occurs.

Except as expressly stated above, Bond Counsel expresses no opinion regarding any other federal income tax consequences of acquiring, carrying, owning or disposing of the 2007 Series A Bonds. Owners of the 2007 Series A Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the 2007 Series A Bonds, which may include original issue discount, original issue premium, purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, and various withholding requirements.

Prospective purchasers of the 2007 Series A Bonds should be aware that ownership of the 2007 Series A Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," foreign corporations subject to the branch profits tax, life insurance companies and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry or have paid or incurred certain expenses allocable to the 2007 Series A Bonds. Bond Counsel expresses no opinion regarding any collateral tax consequences. Prospective purchasers of the 2007 Series A Bonds should consult their tax advisors regarding collateral federal income tax consequences.

Payments of interest on tax-exempt obligations, such as the 2007 Series A Bonds, are in many cases required to be reported to the Internal Revenue Service (the "IRS"). Additionally, backup withholding may apply to any such payments made after March 31, 2007 to any owner who is not an "exempt recipient" and who fails to provide certain identifying information. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients.

Bond Counsel's opinion is not a guarantee of result and is not binding on the IRS; rather, the opinion represents Bond Counsel's legal judgment based on its review of existing law and in reliance on the representations made to Bond Counsel and the City's compliance with its covenants. The IRS has established an ongoing program to audit tax-exempt obligations to determine whether interest on such obligations is includable in gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS will commence an audit of the 2007 Series A Bonds. Owners of the 2007 Series A Bonds are advised that, if the IRS does audit the 2007 Series A Bonds, under current IRS procedures, at least during the early stages of an audit, the IRS will treat the City as the taxpayer, and the owners of the 2007 Series A Bonds may have limited rights to participate in the audit. The commencement of an audit could adversely affect the market value and liquidity of the 2007 Series A Bonds until the audit is concluded, regardless of the ultimate outcome.

Premium

The initial public offering price for certain maturities of the 2007 Series A Bonds may be greater than the amount payable on the 2007 Series A Bonds at maturity. Bound counsel expresses no opinion with respect to the treatment of this additional amount.

Original Issue Discount

The initial public offering price of certain 2007 Series A Bonds (the "Original Issue Discount Bonds") may be less than the stated redemption price at maturity. In such case, the difference between (i) the stated amount payable at the maturity of an Original Issue Discount Bond and (ii) the initial public offering price of that Original Issue Discount Bond constitutes original issue discount with respect to that Original Issue Discount Bond in the hands of the owner who purchased that Original Issue Discount Bond at the initial public offering price in the initial public offering of the 2007 Series A Bonds. The initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to an Original Issue Discount Bond equal to that portion of the amount of the original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by the initial owner.

In the event of the redemption, sale or other taxable disposition of an Original Issue Discount Bond prior to its stated maturity, however, the amount realized by the initial owner in excess of the basis of the Original Issue Discount Bond in the hands of its initial owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Bond was held by the initial owner) is includable in gross income. Purchasers of Original Issue Discount Bonds should consult their tax advisors regarding the determination and treatment of original issue discount for federal income tax purposes and the state and local tax consequences of owning Original Issue Discount Bonds.

In the opinion of Bond Counsel, interest on the 2007 Series A Bonds is exempt from Oregon personal income tax under existing law.

RATINGS

The 2007 Series A Bonds maturing on June 1, 2011 through June 1, 2015, inclusive, have been rated “Aaa” by Moody’s Investors Service and “AAA” by Standard & Poor’s with the understanding that upon delivery of the 2007 Series A Bonds, a Financial Guaranty Insurance Policy will be issued by MBIA. The 2007 Series A Bonds maturing on June 1, 2007, through June 1, 2010, inclusive, are not insured and have been rated “Aa3” by Moody’s Investors Service and “AA-” by Standard & Poor’s. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody’s Investors Service, Inc., 99 Church Street, New York, New York, 10007; and Standard & Poor’s, 25 Broadway, New York, New York, 10004. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agency concerned, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of any such ratings may have an adverse effect on the market price of the 2007 Series A Bonds.

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the 2007 Series A Bonds by the City are subject to the approving opinion of Kirkpatrick & Lockhart Preston Gates Ellis LLP, Portland, Oregon, Bond Counsel. Bond Counsel has reviewed this Official Statement only to confirm that the portions of it describing the 2007 Series A Bonds, the First Lien Bond Ordinance, the Master Second Lien Bond Declaration, and the authority to issue the 2007 Series A Bonds, conform to the 2007 Series A Bonds and the applicable laws under which they are issued. The statements made in this Official Statement under the captions “THE 2007 SERIES A BONDS” (except information under the subheading “SOURCES AND USES OF PROCEEDS”), “PROVISIONS OF THE 2007 SERIES A BONDS -- SPECIAL OBLIGATION, PLEDGE OF NET REVENUES,” “TAX EXEMPTION,” and Appendix A entitled “SUMMARY OF PRINCIPAL PROVISIONS OF THE FIRST LIEN BOND ORDINANCE,” have been reviewed and approved by Bond Counsel. All other representations of law and factual statements contained in this Official Statement, including but not limited to all financial and statistical information and representations contained herein, have not been reviewed or approved by Bond Counsel. For further information concerning the scope of Bond Counsel’s review of this Official Statement, see “TAX EXEMPTION” herein.

LITIGATION

There is no litigation pending or threatened against the City which impairs the City's ability to make principal and interest payments on the 2007 Series A Bonds when due. There is no litigation pending or threatened against the City which would materially and adversely affect the financial condition of the City.

CERTIFICATE WITH RESPECT TO OFFICIAL STATEMENT

At the time of the original delivery of the 2007 Series A Bonds, the City will deliver a certificate to the Underwriters to the effect that the City has examined this Official Statement and the financial and other data concerning the City contained herein and that, to the best of the City's knowledge and belief, (i) this Official Statement, both as of its date and as of the date of delivery of the 2007 Series A Bonds, does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein, in light of the circumstances under which the statements were made, and (ii) between the date of this Official Statement and the date of delivery of the 2007 Series A Bonds, there has been no material change in the affairs (financial or otherwise), financial condition or results of operations of the City except as set forth in this Official Statement.

MISCELLANEOUS

All quotations from and summaries and explanations of provisions of law herein do not purport to be complete, and reference should be made to said laws for full and complete statements of their provisions. This Official Statement is not to be construed as a contract or agreement between the City and the successful bidder or owners of any of the 2007 Series A Bonds. Any statements made in this Official Statement involving matters of opinion are intended merely as opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or its agencies, since the date hereof.

FORWARD LOOKING STATEMENTS

This Official Statement contains statements relating to future results that are "forward looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement and its appendices, the words "estimate," "forecast," "intend," "expect," "projected," and similar expressions identify forward looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward looking statements. Any forecast is subject to such uncertainties. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

CONTINUING DISCLOSURE

Pursuant to SEC Rule 15c2-12, as amended (17 CFR Part 240, § 240.15c2-12) (the "Rule"), the City, as the "obligated person" within the meaning of the Rule, will execute and deliver Continuing Disclosure Certificates substantially in the form attached hereto as Appendix D for the benefit of the 2007 Series A Bond holders.

The City has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

CONCLUDING STATEMENT

This Official Statement has been deemed final by the City for purposes of Rule 15c2-12 of the Securities and Exchange Commission. The undersigned certifies that to the best of his knowledge and belief, (i) this Official Statement, both as of its date and as of the date of delivery of the 2007 Series A Bonds, does not contain any untrue statement of a material fact or omit any statement of a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading and (ii) between the date of this Official Statement and the date of delivery of the 2007 Series A Bonds there has been no material change in the affairs (financial or other), financial condition or results of operations of the City except as set forth in or contemplated by this Official Statement.

The execution and delivery of this Official Statement has been duly approved by the City.

CITY OF PORTLAND, OREGON

By:/s/_____ERIC H. JOHANSEN_____
Debt Manager
Office of Management and Finance

CITY OF PORTLAND, OREGON

1851

APPENDIX A
SUMMARY OF PRINCIPAL PROVISIONS OF THE FIRST LIEN BOND ORDINANCE

CITY OF PORTLAND, OREGON

1851

This appendix summarizes certain provisions of City Ordinance No. 160276, as it has been amended through the date of this official statement (the "First Lien Bond Ordinance"). This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full text of the ordinances comprising the First Lien Bond Ordinance and the Bond Declaration for the 2007 Series A Bonds. Copies of those documents may be obtained by request to the City's Debt Manager, and by paying copying and shipping charges.

The First Lien Bond Ordinance

Definitions.

The First Lien Bond Ordinance uses the following defined terms:

"Average Annual Debt Service" on any proposed Parity Obligations to be issued shall mean the average annual amount of principal of and interest on such Parity Obligations calculated by dividing: (i) the total aggregate principal of, and interest on such Parity Obligations payable during the fiscal years that such Parity Obligations are projected to be outstanding, including any amounts of principal or interest required to be paid pursuant to any mandatory redemption schedule (but without crediting against any sum payable any interest capitalized from proceeds derived from the sale of such Parity Obligations) by (ii) the total fiscal years that such Parity Obligations are projected to be outstanding.

"Bonds" means all obligations that are issued as Parity Obligations in accordance with the First Lien Bond Ordinance. [The body of this official statement refers to "Bonds" issued under the First Lien Bond Ordinance as "First Lien Bonds."]

"Charter" means the charter of the City, as amended.

"City" means the City of Portland, Oregon, a municipal corporation of the State of Oregon.

"Code" means the Internal Revenue Code of 1986, as amended.

"Council" means the council of the City.

"Debt Service" and "Actual Debt Service" on any Bonds that are or will be outstanding during each fiscal year, when used without any modifiers or additions, shall mean for purposes of any covenant, calculation, financial test or certification contained in or required by the sections in the First Lien Bond Ordinance addressing the Rate Covenant and Parity Obligations, the amount of principal of and interest on such Bonds required to be paid during the fiscal year in question, including any amounts of principal or interest required to be paid on such Bonds during such fiscal year pursuant to any mandatory redemption schedule; *provided, however, that* for purposes other than those specified above, there shall be credited against such sum any interest capitalized or otherwise payable from proceeds derived from the sale of such Bonds.

"Debt Service Account" means the Debt Service Account in the Redemption Fund.

"Default" means any event identified as such in the First Lien Bond Ordinance.

"Gross Revenues" means all fees, charges, installment loan contract payments and other amounts, including but not limited to the proceeds of DEQ Loans and any amounts received from the sale, factoring or other financing of installment loan contracts, received by the City from the operation of the Sewer System and the construction of Sewer System facilities and other improvements constituting an integral part of the Sewer System, except as specifically limited below. Gross Revenues also shall include (i) withdrawals from the Rate Stabilization Fund, (ii) any interest earnings on Gross Revenues, (iii) any interest earnings on other funds associated with the Sewer System, if the use of those earnings is not restricted to purposes inconsistent with the payment of debt service on Bonds. However, Gross Revenues does not include: (A) any installment loan contract payments received by the City for line and branch charges, connection fees or system development charges relating to installment loan contracts (i) which have been pledged by the City as security for a DEQ Loan or (ii) which have been sold, factored or pledged as security for, or with respect to, the financing of installment loan contracts; (B) the proceeds of any grants; (C) the proceeds of any borrowing for capital improvements (except the proceeds of a DEQ Loan or the proceeds of other financing of installment loan contracts); (D) the proceeds of any liability insurance; (E) the proceeds of any casualty insurance which the City intends to utilize for repair or replacement of the Sewer System; and (F) the proceeds from the sale of properties comprising the Sewer System.

"Maximum Annual Debt Service" shall mean the maximum aggregate amount of principal and interest payable during any single fiscal year on all series of Bonds then outstanding and any Parity Obligations then proposed to be issued during the period for which such then outstanding Bonds and proposed Parity Obligations are projected to be outstanding, including any amounts of principal or interest required to be paid pursuant to any mandatory redemption schedule (but without crediting against the sum payable in any fiscal year any interest capitalized from proceeds derived from the sale of any series of Bonds).

"Net Revenues" means the Gross Revenues less the Operating Expenses.

"Operating Expenses" means all expenses incurred for operation, maintenance and repair of the Sewer System, including but not limited to administrative expenses, financial and auditing expenses, insurance premiums, claims (to the extent moneys are not available from proceeds of insurance, including, without limitation, claims for refunds, refund obligations or other claims against or relating to the Gross Revenues or fees and charges of the Sewer System, which claim or claims shall be paid solely from Gross Revenues of the Sewer System collected during the fiscal year within which payment of such claim or claims occurs), taxes, legal and engineering expenses relating to operation and maintenance, payments and reserves for pension, retirement, health, hospitalization, and sick leave benefits, including the portion of debt service on bonds or other obligations of the City paid or payable from Gross Revenues of the Sewer System, and incurred to pay or prepay such expenses on behalf of employees of the City working for the Bureau of Environmental Services or any successor agency or department of the City charged with the responsibility of operating, maintaining and administering the Sewer System, and any other similar expenses to be paid to the extent properly and directly attributable to operations of the Sewer System. Operating expenses also include payments to the Rate Stabilization Fund and payments which have been designated Operating Expenses under the provisions of the First Lien Bond Ordinance that related to leases. Operating Expenses do not include depreciation or any rebates paid from Gross Revenues under Section 148(f) of the Code. Operating Expenses further do not include: (i) expenditures made from any liability insurance proceeds; (ii) expenditures made from any casualty insurance proceeds used to pay for costs of repairing or replacing portions of the Sewer System; (iii) expenditures made from grant monies regardless of whether such grant funds are dedicated to a specific purpose or available for the general operation, maintenance and repair or replacement of the Sewer System; (iv) expenditures allocable to any other funding source which does not constitute Gross Revenues of the Sewer System; and (v) franchise fees and similar charges imposed by the City on the Sewer System or its operations.

"Owner" or "Bondowner" means the registered owner of a Bond.

"Parity Obligations" means any revenue bonds or other revenue obligations of the City which comply with the provisions of the First Lien Bond Ordinance for the issuance of Parity Obligations, and are payable from the Net Revenues on a parity of lien with Outstanding Bonds.

"Permitted Investments" means investments which the City may acquire under the laws of the State of Oregon.

"Rate Stabilization Fund" means the Rate Stabilization Fund established by the First Lien Bond Ordinance.

"Redemption Fund" means the Redemption Fund established pursuant to the First Lien Bond Ordinance by the City to hold funds to be used to pay Bond principal and interest.

"Required Reserve" means an amount equal to the lesser of: the maximum annual debt service on all outstanding Bonds; one hundred twenty-five percent of Average Annual Debt Service on all outstanding Bonds; or ten percent of the proceeds of all outstanding issues of Bonds (as the term "proceeds" is used in Section 148(d) of the Code).

"Reserve Account" means the Reserve Account in the Redemption Fund.

"Reserve Equivalent" means an insurance policy, surety bond or letter of credit issued by a municipal bond insurance company or a commercial bank having a credit rating (when the policy, bond, or letter of credit is issued) of at least Aa or AA as determined by Moody's Investors Services or Standard & Poor's Corporation, or their successors, in which the insurance company or commercial bank agrees unconditionally to provide the City with funds for the payment of debt service on Bonds. Each Reserve Equivalent must be unconditional and irrevocable, and either be in effect until the final maturity date of a series of bonds, or if it expires sooner, the City shall provide a substitute Reserve Equivalent or fund the Reserve Account with cash prior to the expiration date of the Reserve Equivalent.

"Sewer System" or "System" means all real and personal property now or hereafter owned, operated, used, or maintained by the City for sewage disposal or sewage purification within or without the corporate limits of the City, including but not limited

to, all methods of storm drainage, intercepting sewers, diversion sewers, relieving or interconnection sewers, sewers to separate storm and sanitary sewage, pump or ejector stations and equipment, and plants for treatment, processing and disposal of sewage.

"Subordinate Obligations" means any obligations of the City payable from Net Revenues which comply with the provisions of the First Lien Bond Ordinance.

Credits Against Mandatory Redemption.

The City shall receive a credit against (i) its obligation to redeem Bonds of a particular series pursuant to a mandatory redemption schedule and (ii) the principal amount of any series of Bonds deemed to be Outstanding for purposes of determining the defeasance requirement with respect to a series of Bonds in an amount equal to the principal amount of any Bonds of any series subject to such mandatory redemption which have theretofore been redeemed (other than pursuant to such mandatory redemption schedule) or purchased on the open market and surrendered to the Registrar for cancellation and for which a credit has not previously been given. The credit shall be applied against the mandatory redemption obligation or defeasance requirement for such Bonds in the year or years as the City shall direct the Registrar in writing.

Pledge and Use of Revenues.

The City hereby pledges the Net Revenues and all money in the Redemption Fund equally and ratably to the payment of principal, interest and premium on all Bonds, and the payment of any amounts due under a Reserve Equivalent without distinction or difference as to any Bonds or series of Bonds. As long as any Bonds remain issued and outstanding, Gross Revenues shall be used solely to pay the following amounts in the following order of priority:

1. To pay Operating Expenses which are then due (other than payments to the Rate Stabilization Fund) and any rebate of earnings on nonpurpose obligations in which the gross proceeds of Bonds are invested which is required to be paid under Section 148(f) of the Code;

2. To make required payments to the Redemption Fund;

3. To make any payment required under a Reserve Equivalent, including any amounts due under a financial guaranty or other agreement executed in connection therewith;

4. To make required payments to the Reserve Account;

5. To pay any other costs or expenses relating to the Sewer System, and to make payments to the Rate Stabilization Fund.

Creation of Funds and Accounts.

The City shall create and maintain the Redemption Fund as a separate fund or account for accounting purposes; money in the Redemption Fund may be commingled with other City money for investment purposes. The Redemption Fund shall contain a Debt Service Account and a Reserve Account. The City shall deposit into the Redemption Fund, solely from the Net Revenues, money sufficient to make timely payment of all Bond principal and interest when due.

The Debt Service Account

The City covenants with the owners of the Bonds that it will, so long as any Bonds remain outstanding, make the following deposits from the Net Revenues into the Debt Service Account:

1. Not less than five business days prior to a Bond interest payment date, the City will deposit into the Debt Service Account an amount equal to the amount necessary to pay all Bond interest due on that payment date. Prepayment of deposits will fulfill this requirement.

2. Not less than five business days prior to a Bond principal payment date, the City will deposit into the Debt Service Account an amount equal to the amount necessary to pay all Bond principal and premium due on that payment date. Prepayment of deposits will fulfill this requirement.

The Reserve Account

The City shall create and maintain the Reserve Account. Money in the Reserve Account will be used only to pay Bond principal or interest, and only in the event that money in the Debt Service Account is not sufficient to pay Bond principal and interest when due.

The City covenants with the owners of the Bonds that it will maintain a balance in the Reserve Account at least equal to the Required Reserve. In the event the amount on deposit in the Reserve Account is less than the Required Reserve, the deficiency shall be eliminated by no more than twelve approximately equal monthly payments to the Reserve Account, with the first payment to be made no more than sixty days after the balance in the Reserve Account falls below the Required Reserve. In the event the amount on deposit in the Reserve Account is more than the Required Reserve, any such excess may be transferred out of the Reserve Account and used for any purposes for which the Gross Revenues may be used.

The balance in the Reserve Account shall be deemed to include, in addition to cash deposits and bond proceeds, the amount available to be paid under any Reserve Equivalents.

Money in the Reserve Account shall be invested in Permitted Investments. Permitted Investments shall be valued as of the first day of each fiscal year. Permitted Investments maturing in one year or less from the valuation day shall be valued at their face amount. Permitted Investments maturing in more than one year from the valuation date shall be valued at the lower of cost or market value.

The Rate Stabilization Fund.

The City has created the Rate Stabilization Fund as a separate fund or account for accounting purposes; money in the Rate Stabilization Fund may be commingled with other City money for investment purposes. The City may make payments into the Rate Stabilization Fund from the Gross Revenues at any time. Money in the Rate Stabilization Fund may be withdrawn at any time and used for any purpose for which the Gross Revenues may be used. As provided in the definitions of "Gross Revenues" and "Operating Expenses" deposits to the Rate Stabilization Account increase Operating Expenses and withdrawals from the Rate Stabilization Fund increase Gross Revenues for purposes of calculating compliance with certain provisions of the Rate Covenant and the tests for issuing Parity Obligations.

Rate Covenant.

The City covenants that it will authorize, bill and collect fees and charges for the use of the Sewer System and operate the Sewer System so that:

1. Net Revenues (without adjustment for payments to or withdrawals from the Rate Stabilization Fund) in each fiscal year are projected to be at least equal to the sum of all payments due under any Reserve Equivalent, plus all debt service due on outstanding Bonds in that fiscal year; and

2. Net Revenues (after adjustments for payments to and withdrawals from the Rate Stabilization Fund) in each fiscal year are projected to be at least equal to the sum of all payments due under any Reserve Equivalent, plus 1.20 times the debt service on all outstanding Bonds due in that fiscal year.

If the Net Revenues fail to meet these projected levels, the City shall promptly increase its fees to a level so that the Net Revenues are projected to meet the required level.

General Covenants.

The City hereby covenants and agrees with the owners of all outstanding Bonds as follows:

1. That it will, to the extent the Net Revenues are sufficient, promptly cause the principal and interest on the Bonds to be paid as they become due.

2. That it will maintain complete books and records relating to the operation of the Sewer System, the Gross Revenues, the Operating Expenses, the Redemption Fund, the Debt Service Account, the Reserve Account and the Rate Stabilization Fund, in accordance with generally accepted accounting principles, and will cause such books and

records to be audited annually at the end of each fiscal year, and an audit report prepared and made available for the inspection of Bondowners.

3. That it will not issue Bonds or other obligations having a claim superior to the claim of the Bonds upon the Net Revenues, except as provided specifically permitted by the First Lien Bond Ordinance.

4. That is will cause the System to be operated at all times in a safe, sound, efficient and economic manner in compliance with all health, safety and environmental laws, regulatory body rules, regulatory body orders and court orders applicable to the City's operation and ownership of the System, and shall cause the System to be maintained, preserved, reconstructed, expanded and kept, with all appurtenances and every part and parcel thereof, in good repair, working order and condition, and shall from time to time cause to be made, without undue deferral, all necessary or proper repairs, replacements and renewals so that at all times the operation of the System shall be properly and advantageously conducted. The City shall not enter into any agreements to provide free service or services at a discount from published rate schedules except in case of emergency.

5. That is will maintain insurance, or a reasonable system of self insurance, appropriate to the risks associated with operation of its Sewer System.

Parity Obligations.

The City may issue Parity Obligations to provide funds for any purpose relating to the Sewer System which is authorized by law, but only upon the following conditions:

1. No Default has occurred and is continuing.

2. At the time of the issuance of the Parity Obligations there is no deficiency in the Debt Service Account or the Reserve Account.

3. The ordinance authorizing the issuance of the Parity Obligations requires that the balance in the Reserve Account at closing is made equal to the Required Reserve for all outstanding Bonds, including the proposed Parity Obligations.

4. The ordinance authorizing the issuance of the Parity Obligations contains a covenant requiring the City to operate the Sewer System so that:

    A. Net Revenues (without adjustment for payments to or withdrawals from the Rate Stabilization Fund) in each fiscal year are projected to be at least equal to the sum of all payments due under any Reserve Equivalent, plus all debt service due on outstanding Bonds (including the proposed Parity Obligations) in that fiscal year; and

    B. Net Revenues (after adjustments for payments to and withdrawals from the Rate Stabilization Fund) in each fiscal year are projected to be at least equal to the sum of all payments due under any Reserve Equivalent, plus 1.20 times the debt service due on all outstanding Bonds (including the proposed Parity Obligations) in that fiscal year.

5. There is filed with the City Auditor the certificate of a qualified engineering, auditing or other consulting firm experienced in the preparation or review of financial forecasts and reports of municipal utility operations, to the effect that both (a) the Net Revenues (without regard to payments to or withdrawals from the Rate Stabilization Fund) for any of the 12 consecutive months during the 18 months preceding the issuance of the Parity Obligations are not less than 1.00 times maximum annual debt service on all outstanding Bonds and the proposed Parity Obligations; and (b) the Net Revenues, as projected for each of the next ensuing three fiscal years (including any planned rate increases) are not less than 1.20 times the sum of: Actual Debt Service on all outstanding Bonds in each respective fiscal year; plus, Average Annual Debt Service on the proposed Parity Obligations. In calculating Net Revenues under clause (a) of this paragraph, Net Revenues may be adjusted for rate increases which have been adopted by the Council prior to the issuance of Parity Obligations. Such rate increases need not be in effect when the Parity Obligations are issued.

Notwithstanding the requirements of paragraphs 1, 2, 3 and 5, above, the City may issue Parity Obligations to refund outstanding Bonds if the debt service in each year on the Parity Obligations does not exceed by more than $5,000 the debt service on the Bonds being refunded.

All Parity Obligations shall have a lien on the Net Revenues which is equal to the lien of all other Parity Obligations.

Subordinate Obligations.

The City may issue Subordinate Obligations for any purpose relating to the Sewer System which is authorized by law, provided no Bond Default has occurred and is continuing. All Subordinate Obligations shall have a lien on the Net Revenues which is subordinate to the lien of the Bonds.

In the event of any insolvency or bankruptcy proceedings relating to the City or to its property, the holders of Bonds shall be entitled to receive payment in full of all principal, premium (if any) and interest thereon (including interest accruing after the commencement of any proceeding) before the holders of the Subordinate Obligations are entitled to receive any payment on account of principal, premium (if any) or interest upon the Subordinate Obligations.

Default.

The following events shall constitute Default:

1. Failure to pay Bond principal, interest or premium when due; or

2. Failure to perform any other obligation of the City imposed by the First Lien Bond Ordinance or the Bonds, but only if:

    A. the failure continues for a period of more than ninety (90) days after demand has been made on the City to remedy the failure by the Owners of at least twenty percent of the Bonds outstanding; and

    B. the City fails to take reasonable steps to remedy the failure within that ninety-day period; or

    C. Imposition of a receivership upon, or liquidation of, the Sewer System; or,

    D. Written admission by the City that the City is unable to pay its debts as they become due.

Upon Default, any Bondowner may exercise any remedy available at law or in equity.

Sales, Leases and Encumbrances.

The City may not sell or exchange or otherwise dispose of any property constituting a part of the Sewer System, except as provided below, unless the property is either worn out or obsolete or, in the opinion of the City, is no longer useful in the operation of the Sewer System. Any proceeds of such sale, exchange or other disposition shall be used only for purposes for which the Gross Revenues may be used.

The City may mortgage, grant security interests in, lease or otherwise encumber the Sewer System, provided that the aggregate annual payments required to be made from the Gross Revenues in connection with all such encumbrances shall not in any fiscal year exceed 25% of the Operating Expenses for such fiscal year. Payments required to be made in connection with such encumbrances shall be considered Operating Expenses if the City so designates in the documents evidencing the encumbrance.

The City may also lease as lessor or make contracts or grant licenses for the operation of, or grant easements or other rights with respect to any part of the Sewer System if such lease, contract, license, easement or right does not, in the opinion of the City, impede the operation of the Sewer System.

Amendment or Supplement of First Lien Bond Ordinance.

Amendments without Owner Consent

This First Lien Bond Ordinance may be amended or supplemented without the consent of any Owners for any one or more of the following purposes:

1. To add to the covenants and agreements of the City in the First Lien Bond Ordinance any other covenants and agreements thereafter to be observed by the City, or to surrender any right or power herein reserved to or conferred upon the City, provided the City obtains an opinion of nationally recognized bond counsel that such amendment will not cause interest on tax-exempt Bonds to be includable in gross income for federal income tax purposes;

2. To cure any ambiguity or formal defect contained in the First Lien Bond Ordinance, if that cure does not, in the judgment of the Council, adversely affect the interests of the Bondowners; and provided the City obtains an opinion of Nationally Recognized Bond Counsel that such amendment will not cause interest on tax-exempt Bonds to be includable in gross income for federal income tax purposes;

3. To issue Parity Obligations in accordance with the First Lien Bond Ordinance;

4. To issue Subordinate Obligations in accordance with the First Lien Bond Ordinance.

Amendments with Owner Consent

This First Lien Bond Ordinance may be amended for any other purpose only upon consent of the Owners of not less than fifty-one percent in aggregate principal amount of the Bonds outstanding; provided, however, that no amendment shall be valid without the consent of Owners of 100 percent of the aggregate principal amount of affected Bonds outstanding which:

1. Extends the maturity of any Bond, reduces the rate of interest upon any Bond, extends the time of payment of interest on any Bond, reduces the amount of principal payable on any Bond, or reduces any premium payable on any Bond, without the consent of the affected Bondowner; or

2. Reduces the percentage of Owners required to approve an amendment to the First Lien Bond Ordinance.

Defeasance.

Except as otherwise provided for a specific Series of Bonds, in the event that the City:

1. shall cause to be irrevocably deposited with the Registrar or any other agent appointed for such purpose, cash or Government Obligations, or both, in an amount sufficient to pay when due the principal of, premium (if any) and interest on all or any portion of any Bonds; and

2. shall irrevocably instruct such agent in writing to apply such cash or Government Obligations to the payment when due of the principal of, premium (if any) and interest on all or such designated portion of any Bonds; and

3. if some or all of the Bonds are to be redeemed prior to maturity, shall irrevocably instruct the Registrar in writing to call such Bonds designated for redemption on such date or dates and in such principal amounts as the City shall specify;

then upon such deposit all or such portion of the Bonds which have been defeased pursuant to the terms hereof shall be deemed to have been paid in full and no longer be outstanding under the First Lien Bond Ordinance for any purpose other than the subsequent transfer and exchange of such Bonds as provided herein and the payment when due of the principal of and interest on such Bonds out of the cash or Government Obligations so deposited, and the Bonds so defeased shall thereafter be secured solely and only by the cash or Government Obligations so deposited and the Bonds so defeased shall no longer be secured by the lien on Net Revenues pledged and granted by the First Lien Bond Ordinance.

CITY OF PORTLAND, OREGON

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APPENDIX B
AUDITED FINANCIAL STATEMENTS

CITY OF PORTLAND, OREGON

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INTRODUCTION TO FINANCIAL STATEMENTS

The financial statements of the City have been audited by independent certified public accountants for the fiscal years 2002, 2003, 2004, 2005, and 2006.

Copies of these financial statements containing the reports of the independent certified public accountants are available on the City's website at:

http://www.portlandonline.com/omf/index.cfm?c=26053

The City's website is listed for reference only, and is not part of this Official Statement.

The following pages in this Appendix C are excerpted from the Comprehensive Annual Financial Reports of the City for the Fiscal Years ending June 30, 2002 through June 30, 2006.

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 THE OFFERING OF THE 2007 SERIES A BONDS AND IS THEREFORE NOT ASSOCIATED WITH THE OFFERING OF THE 2007 SERIES A BONDS.

CITY OF PORTLAND, OREGON

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CITY OF PORTLAND, OREGON
SEWAGE DISPOSAL FUND
STATEMENT OF NET ASSETS (1)
As of June 30

	2002	2003	2004	2005	2006
ASSETS					
Current assets (unrestricted):					
Cash and investments	$79,272,550	$214,157,395	$100,737,584	$163,989,057	$81,006,622
Receivables					
Accounts, net	20,179,570	15,103,420	16,072,704	15,834,267	19,075,520
Assessments	163,358	2,869,278	4,191,108	2,794,022	3,461,867
Accrued interest	402,295	294,644	296,002	790,747	1,676,337
Due from other funds	13,293,343	7,599,405	1,132,613	1,163,644	2,039,637
Internal loans	-	-	285,853	3,200,000	6,000,000
Inventories	852,148	956,818	916,298	946,641	1,051,032
Other assets	10,946	10,946	10,946	-	-
Total current assets (unrestricted)	114,174,210	240,991,906	123,643,108	188,718,378	114,311,015
Current assets (restricted):					
Cash and investments	-	-	-	-	249,163,164
Total current assets (restricted)	-	-	-	-	249,163,164
Total current assets	114,174,210	240,991,906	123,643,108	188,718,378	363,474,179
Noncurrent assets:					
Capital assets:					
Land	27,754,287	31,539,383	39,218,732	39,870,038	41,420,491
Plant, buildings and improvements	14,454,050	15,357,685	15,663,269	16,076,180	15,880,516
Machinery and equipment	15,041,630	16,885,900	17,669,277	19,606,566	26,486,786
Infrastructure	1,246,574,502	1,374,329,228	1,401,288,653	1,432,570,519	1,480,375,655
Construction in progress	191,601,040	183,802,697	312,998,649	438,036,949	558,757,198
Capitalized leases	3,836,353	3,836,353	3,836,353	4,143,081	4,143,081
Accumulated depreciation and amortization	(126,058,761)	(141,335,656)	(158,351,929)	(176,043,167)	(193,126,403)
Capital assets net of accumulated depreciation and amortization	1,373,203,101	1,484,415,590	1,632,323,005	1,774,260,166	1,933,937,324
Assessments receivable	4,112,461	-	-	-	-
Pre-paid expense	30,821,262	29,697,082	28,572,902	27,448,722	29,764,260
Total non-current assets	1,408,136,824	1,514,112,672	1,660,895,907	1,801,708,888	1,963,701,584
Total assets	1,522,311,034	1,755,104,578	1,784,539,016	1,990,427,267	2,327,175,763

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

	2002	2003	2004	2005	2006
LIABILITIES					
Current liabilites (payable from unrestricted assets):					
Accounts payable	6,146,434	18,570,494	16,145,515	12,476,099	15,238,116
Compensated absences	1,605,178	2,048,004	2,078,584	2,563,369	2,655,261
Due to component unit	-	-	-	-	34,967
Deferred/unearned revenue	-	-	8,228	8,444	731,650
Capital leases payable - current	391,015	409,957	387,894	374,394	397,282
Revenue bonds payable - current	23,805,000	25,730,000	27,195,000	34,020,000	40,768,097
Notes payable - current	24,507	24,700	29,906	30,124	294,370
Interest payable	6,667,028	6,866,069	6,536,819	4,602,098	7,828,180
Other liabilities - current	881,120	4,009,334	6,914,342	13,356,271	15,367,920
Total current liabilities (unrestricted)	39,520,282	57,658,558	59,296,288	67,430,799	83,315,843
Noncurrent liabilities:					
Compensated absences	687,934	279,273	283,443	54,652	167,721
Revenue bonds payable	724,179,067	903,319,080	876,171,507	1,036,889,060	1,264,236,541
Notes payable	579,204	554,504	524,598	2,385,375	12,766,380
Capital leases payable	1,828,012	1,418,055	1,030,751	958,555	561,273
Other liabilities	3,300,000	1,825,000	2,588,733	-	-
Prepaid sewer assessment	142,950	142,950	142,950	88,347	112,247
Accrued interest payable	-	441,924	919,551	1,435,776	1,993,870
Total noncurrent liabilities	730,717,167	907,980,786	881,661,533	1,041,811,765	1,279,838,032
Total liabilities	770,237,449	965,639,344	940,957,821	1,109,242,564	1,363,153,875
NET ASSETS					
Invested in capital assets, net of related debt	669,738,681	734,478,945	815,625,493	827,100,979	910,368,215
Restricted for debt service	-	-	-	-	-
Unrestricted	82,334,904	54,986,289	27,955,701	54,083,723	53,653,673
Total net assets	$752,073,585	$789,465,234	$843,581,194	$881,184,702	$964,021,888

Source: City of Portland audited financial statements.

CITY OF PORTLAND, OREGON
SEWAGE DISPOSAL FUND
STATEMENT OF REVENUES, EXPENSES, and CHANGES IN FUND NET ASSETS
FISCAL YEAR ENDING JUNE 30

	2002	2003	2004	2005	2006
Service charges and fees	$159,700,889	$159,476,837	$176,571,018	$185,994,945	$200,718,890
Licenses and permits	391,832	503,334	619,686	646,730	733,870
Rents and reimbursements	123,607	108,180	77,278	56,291	57,446
Miscellaneous	1,950,683	5,863,835	992,005	4,533,484	3,181,610
Total operating revenues	162,167,011	165,952,186	178,259,986	191,231,450	204,691,816
Salaries and wages	22,239,314	24,958,065	26,979,662	28,810,743	28,151,119
Operating supplies	2,628,479	2,068,260	2,459,475	2,206,370	2,573,596
Professional services	30,252,701	33,456,696	34,697,012	35,460,627	34,938,849
Utilities	5,044,392	4,257,473	4,825,027	4,488,714	5,694,511
Miscellaneous	3,138,410	5,708,242	1,299,829	4,758,992	468,680
Utility license fees	11,048,119	11,885,708	11,538,268	12,684,307	12,314,131
Bad debt expense	15,202,047	-	-	-	-
Downspout disconnect program expense	3,522,412	-	-	-	-
Depreciation expense	14,793,040	15,399,382	17,077,087	17,421,543	18,036,474
Total operating expenses	107,868,914	97,733,826	98,876,359	105,831,296	102,177,360
Operating income (loss)	54,298,097	68,218,360	79,383,627	85,400,154	102,514,456
Gain (loss) on sale of fixed assets	(71,584)	8,563	26,827	1,264,358	(403,673)
Investment earnings	4,640,418	1,823,780	997,154	3,260,994	5,910,254
Interest expense	35,816,838)	(35,145,809)	(30,557,968)	(50,457,879)	(28,202,659)
Debt issuance costs	-	-	-	(3,611,363)	(2,089,712)
Miscellaneous	1,875,701	(125,000)	148,685	(632,767)	326,994
Total nonoperating revenues (expenses)	(29,372,303)	(33,438,466)	(29,385,302)	(50,176,657)	(24,458,796)
Income (loss) before contributions and transfers	24,925,794	34,779,894	49,998,325	35,223,497	78,055,660
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	(275,598)
Capital contributions	2,590,674	2,611,764	4,117,635	2,380,011	5,057,124
Change in net assets	27,516,468	37,391,658	54,115,959	37,603,508	82,837,186
Total net assets -- beginning, as restated	724,557,117	752,073,585	789,465,234	843,581,193	881,184,702
Total net assets -- ending	$752,073,585	$789,465,243	$843,581,193	$881,184,702	$964,021,888

Source: City of Portland audited financial statements.

CITY OF PORTLAND, OREGON
SEWAGE DISPOSAL FUND
STATEMENT OF CASH FLOWS
FISCAL YEAR ENDING JUNE 30

	2002	2003	2004	2005	2006
CASH FLOWS FROM OPERATING ACTIVITY					
Receipts from customers and users	$176,453,341	$171,086,729	$178,568,396	$187,913,730	$195,003,202
Receipts from interfund services provided	1,654,721	8,200,876	7,042,691	218,537	(708,292)
Payments to suppliers	(50,167,297)	(15,757,991)	(27,344,533)	(31,969,007)	(23,915,098)
Payments to employees	(22,304,684)	(24,923,899)	(26,944,913)	(28,554,749)	(27,946,158)
Payments for interfund services used	(21,236,647)	(26,045,914)	(26,726,695)	(25,806,282)	(27,303,062)
Other receipts (payments)	280,527	(2,758,662)	(355,526)	75,802	51,835
Claims paid	-	-	-	-	-
Net cash provided by operating activities	84,679,961	109,801,139	104,239,420	101,878,031	115,182,427
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES					
Miscellaneous revenues (expenses)	2,999,881	999,171	1,272,865	491,413	1,451,174
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	(275,598)
Net cash provided (used) by noncapital financing activities	2,999,881	999,171	1,272,865	491,413	1,175,576
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sale of bonds and notes	-	244,523,745	-	403,320,901	275,692,796
Premium on bonds and notes issued	-	-	-	36,890,389	5,017,847
Sale of capital assets	76,900	37,049	67,300	1,666,814	179,878
Acquisiton of capital assets	(85,327,229)	(124,028,594)	(163,468,959)	(157,074,421)	(173,240,059)
Principal paid on bonds, notes and capital leases	(23,072,975)	(65,455,522)	(26,639,068)	(271,107,329)	(34,461,939)
Interest paid on bonds, notes and capital leases	(34,519,751)	(32,923,575)	(29,887,164)	(51,969,211)	(26,300,750)
Debt issuance costs	-	-	-	(3,611,363)	(2,089,712)
Net cash provided (used) by capital related financing activities	(142,843,055)	22,153,103	(219,927,891)	(41,884,220)	44,798,061
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest on investments	6,081,167	1,931,432	995,795	2,766,249	5,024,665
Net increase (decrease) in cash and cash equivalents	(49,082,046)	134,884,845	(113,419,811)	63,251,473	166,180,729
CASH AND CASH EQUIVALENTS July 1, Prior Year	128,354,596	79,272,550	214,157,395	100,737,584	163,989,057
CASH AND CASH EQUIVALENTS June 30, Current Year	$79,272,550	$214,157,395	$100,737,584	$163,989,057	$330,169,786

CITY OF PORTLAND, OREGON
SEWAGE DISPOSAL FUND
STATEMENT OF CASH FLOWS (continued)
FISCAL YEAR ENDING JUNE 30

	2002	2003	2004	2005	2006
Reconciliation of operating income (loss) to net cash provided by operating activities					
Operating income (loss)	$54,298,097	$68,218,360	$79,383,627	$85,400,154	$102,514,455
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization of capital assets	14,793,040	15,399,382	17,077,087	17,421,543	18,036,474
Provision for uncollectible accounts	15,202,047	(1,259,486)	(3,510,816)	1,712,565	(37,781)
Noncash expenditure adjustment	-	-	2,561,620	-	-
Change in assets and liabilities:					
Accounts and contracts receivable	1,978,524	7,742,176	1,219,704	(66,095)	(7,311,033)
Inventories	(53,854)	(104,670)	40,520	(30,343)	(104,391)
Checks and accounts payable	(3,456,845)	12,424,060	(2,424,979)	(3,669,417)	2,762,016
Accrued compensated absences	(65,369)	34,165	34,750	255,994	204,961
Due from (to) other funds	(919,467)	5,693,938	6,466,792	(31,031)	(875,993)
Internal loans receivable	-	-	(285,853)	(2,914,147)	(2,800,000)
Other assets	(10,946)	-	-	-	-
Deferred revenue	-	-	8,228	216	723,206
Accrued claims	-	-	-	-	-
Other accrued liabilities	2,914,734	1,653,214	3,668,740	3,798,592	2,070,513
Net cash provided by operating activities	$84,679,961	$109,801,139	$104,239,420	$101,878,031	$115,182,427
Noncash information					
Non-operating prepaid PERS amortization				1,124,180	1,124,180
Capital contribution		.		2,380,011	4,963,572

CITY OF PORTLAND, OREGON

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APPENDIX C
LEGAL OPINION

CITY OF PORTLAND, OREGON

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K&L|GATES

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March 8, 2007

City of Portland
1221 S.W. Fourth Avenue, Room 120
Portland, Oregon 97204

Citigroup Global Markets, Inc.
390 Greenwich Street, 2nd Floor
New York, New York 10013

Subject: $193,510,000 City of Portland, Oregon, First Lien Sewer System Revenue Refunding Bonds, 2007 Series A

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Portland, Oregon (the "City") of its First Lien Sewer System Revenue Refunding Bonds, 2007 Series A (the "2007 Series A Bonds"), in the aggregate principal amount of One Hundred Ninety-Three Million Five Hundred Ten Thousand Dollars ($193,510,000), pursuant to City Ordinance No. 160276, as amended, supplemented and clarified by subsequent ordinances (the "Ordinance"). We have examined the law and such certified proceedings and other documents as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the City contained in the Ordinance and other certified proceedings and certifications of officials of the City and others furnished to us without undertaking to verify such representations and certifications by independent investigation. We have also relied on the covenants of the City to comply with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code") with respect to the investment and use of proceeds of the 2007 Series A Bonds.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of any of the preliminary official statement, the official statement or other offering materials relating to the 2007 Series A Bonds, and we express no opinion relating thereto.

Based on our examination, we are of the opinion, under existing law, as follows:

1. The 2007 Series A Bonds have been legally authorized, sold and issued under and pursuant to the Constitution and Statutes of the State of Oregon and the Charter of the City. The 2007 Series A Bonds constitute valid and legally binding special obligations of the City enforceable in accordance with their terms. The 2007 Series A Bonds are payable solely from the revenues of the City's Sewer System and related amounts that are pledged as provided in the Ordinance.

2. Interest on the 2007 Series A Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, interest on the 2007 Series A Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinion set forth in the preceding sentence is subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the 2007 Series A Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The City has covenanted to comply with all applicable requirements. Failure to comply with certain of such covenants may cause interest on the 2007 Series A Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the 2007 Series A Bonds.

3. Interest on the 2007 Series A Bonds is exempt from Oregon personal income tax under existing law.

We note that the City has not designated the 2007 Series A Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code.

Except as expressly stated above, we express no opinion regarding any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the 2007 Series A Bonds. Owners of the 2007 Series A Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the 2007 Series A Bonds, which may include original issue discount, original issue premium, purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, and various withholding requirements.

Our opinion is limited to matters of Oregon law and applicable federal law, and we assume no responsibility as to the applicability of laws of other jurisdictions.

This opinion is given as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

The opinions set forth above are qualified only to the extent that enforceability of the 2007 Series A Bonds may be limited by or rendered ineffective by (i) bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting creditors' rights generally; (ii) the application of equitable principles and the exercise of judicial discretion in appropriate cases; (iii) common law and statutes affecting the enforceability of contractual obligations generally; (iv) principles of public policy concerning, affecting or limiting the enforcement of rights or remedies against governmental entities such as the City.

This opinion is provided to you as a legal opinion only, and not as a guaranty or warranty of the matters discussed herein. No opinions may be inferred or implied beyond the matters expressly stated herein. No qualification, limitation or exception contained herein shall be construed in any way to limit the scope of the other qualifications, limitations and exceptions. For purposes of this opinion, the terms "law" and "laws" do not include unpublished judicial decisions, and we disclaim the effect of any such decision on the opinions expressed. This opinion speaks as of its date only, and we disclaim any undertaking or obligation to advise you of any changes that hereafter may be brought to our attention or any change in law that may hereafter occur.

The opinions expressed herein are solely for your benefit in connection with the above referenced bond financing and may not be relied on in any manner or for any purpose by any person or entity other than the addressees listed above and the owners of the 2007 Series A Bond, nor may copies be furnished to any other person or entity, without the prior written consent to Kirkpatrick & Lockhart Preston Gates Ellis LLP.

We have served only as bond counsel to the City and have not and are not representing any other party in connection with the 2007 Series A Bonds. Therefore, no attorney-client relationship shall arise by virtue of our addressing this opinion to persons other than the City.

Respectfully submitted,

KIRKPATRICK & LOCKHART PRESTON GATES ELLIS LLP

APPENDIX D
CONTINUING DISCLOSURE CERTIFICATE

CITY OF PORTLAND, OREGON

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CONTINUING DISCLOSURE CERTIFICATE

$193,510,000
City of Portland, Oregon
First Lien Sewer System Revenue Refunding Bonds
2007 Series A

This Continuing Disclosure Certificate (the "Certificate") is executed and delivered by the City of Portland, Oregon (the "City") in connection with the issuance of the City's First Lien Sewer System Revenue Refunding Bonds, 2007 Series A (the "2007 Series A Bonds").

Section 1. Purpose of Certificate. This Certificate is being executed and delivered by the City for the benefit of the 2007 Series A Bondowners and to assist the underwriter(s) of the 2007 Series A Bonds in complying with paragraph (b)(5) of the Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. § 240.15c2-12), (the "Rule"). This Certificate constitutes the City's written undertaking for the benefit of the 2007 Series A Bondowners as required by Section (b)(5) of the Rule.

Section 2. Definitions. Unless the context otherwise requires, the terms defined in this Section shall, for purposes of this Certificate, have the meanings herein specified.

"Beneficial Owner" means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any 2007 Series A Bonds, including persons holding 2007 Series A Bonds through nominees or depositories.

"2007 Series A Bondowners" means the registered owners of the 2007 Series A Bonds, as shown on the bond register maintained by the Paying Agent for the 2007 Series A Bonds, and any Beneficial Owners.

"Commission" means the Securities and Exchange Commission.

"MSRB" means the Municipal Securities Rulemaking Board or any successor to its functions.

"NRMSIR" means a nationally recognized municipal securities information repository.

"Official Statement" means the final official statement for the 2007 Series A Bonds dated February 27, 2007.

"Rule" means the Commission's Rule 15c2-12 under the Securities and Exchange Act of 1934, as the same may be amended from time to time.

"SID" means a state information depository for the State of Oregon (if one is created).

Section 3. Financial Information. The City agrees to provide or cause to be provided to each NRMSIR and to the SID, if any, in each case as designated by the Commission in accordance with the Rule, the following annual financial information and operating data for the prior fiscal year (commencing no later than March 31, 2008, for the fiscal year ended June 30, 2007):

A. The City's previous fiscal year annual financial statements prepared in accordance with the Oregon Local Budget Law (or any successor statute) and in accordance with generally accepted accounting principles so prescribed by the Governmental Accounting Standards Board (or its successors); and,

B. To the extent not included in those annual financial statements, information generally of the type included in the official statement for the 2007 Series A Bonds under the heading "Annual Disclosure Information."

Section 4. Timing. The information described in Sections 3.A and 3.B above shall be provided on or before nine months after the end of the City's fiscal year. The City's current fiscal year ends June 30. The City may adjust such fiscal year by providing written notice of the change of fiscal year to each then existing NRMSIR and the SID, if any. In lieu of providing such annual financial information and operating data, the City may cross-reference to other documents provided to the NRMSIR, the SID or to the Commission and, if such document is a final official statement within the meaning of the Rule, available from the MSRB.

The City agrees to provide or cause to be provided, in a timely manner, to each NRMSIR or to the MSRB, and to the SID, if any, notice of its failure to provide the annual financial information described in Sections 3.A and 3.B above on or prior to the date set forth in the preceding paragraph.

Section 5. Material Events. The City agrees to provide or cause to be provided, in a timely manner, to the SID, if any, and to each NRMSIR or to the MSRB notice of the occurrence of any of the following events with respect to the 2007 Series A Bonds, if material:

1. Principal and interest payment delinquencies;

2. Non-payment related defaults;

3. Unscheduled draws on debt service reserves reflecting financial difficulties;

4. Unscheduled draws on credit enhancements reflecting financial difficulties;

5. Substitution of credit or liquidity providers or their failure to perform;

6. Adverse tax opinions or events affecting the tax-exempt status of the 2007 Series A Bonds;

7. Modifications to the rights of 2007 Series A Bondowners;

8. Bond calls;

9. Defeasances;

10. Release, substitution or sale of property securing repayment of the 2007 Series A Bonds; and

11. Rating changes.

Section 6. Termination/Modification. The City's obligations to provide notices of material events shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 2007 Series A Bonds. This Certificate, or any provision hereof, shall be null and void if the City (a) obtains an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require this Certificate, or any provision hereof, are invalid, have been repealed retroactively or otherwise do not apply to the 2007 Series A Bonds; and (b) notifies each then existing NRMSIR and the SID, if any, of such opinion and the cancellation of this Certificate.

Section 7. Amendment. Notwithstanding any other provision of this Certificate, the City may amend this Certificate, and any provision of this Certificate may be waived, provided that the following conditions are satisfied:

A. If the amendment or waiver relates to the provisions of Sections 3.A or 3.B or Section 5 hereof, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the City with respect to the 2007 Series A Bonds, or the type of business conducted;

B. The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the 2007 Series A Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

C. The amendment or waiver either (i) is approved by the 2007 Series A Bondowners or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the 2007 Series A Bondowners.

In the event of any amendment or waiver of a provision of this Certificate, the City shall describe such amendment in the next annual report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a material event under Section 5 hereof, and (ii) the annual report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 8. 2007 Series A Bondowner's Remedies Under This Certificate. The right of any 2007 Series A Bondowner to enforce the provisions of this Certificate shall be limited to a right to obtain specific enforcement of the City's obligations hereunder, and any failure by the City to comply with the provisions of this undertaking shall not be an event of default with respect to the 2007 Series A Bonds hereunder. 2007 Series A Bondowners may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the City to comply with its obligations under this Certificate. A default under this Certificate shall not be deemed a default or an event of default under the documents authorizing issuance of the 2007 Series A Bonds, and no monetary damages shall arise or be payable hereunder, and the sole remedy under this Certificate in the event of any failure of the City to comply with this Certificate shall be an action to compel performance.

Section 9. DisclosureUSA. Any filing required to be made with any NRMSIR or SID under this Certificate may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at http://www.disclosureusa.org unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

Section 10. Choice of Law. This Certificate shall be governed by and construed in accordance with the laws of the State of Oregon, provided that to the extent this Certificate addresses matters of federal securities laws, including the Rule, this Certificate shall be construed in accordance with such federal securities laws and official interpretations thereof.

Dated as of the eighth day of March, 2007.

City of Portland, Oregon

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Debt Manager

CITY OF PORTLAND, OREGON

1851

APPENDIX E
BEO SYSTEM

CITY OF PORTLAND, OREGON

1851

BEO SYSTEM

DTC LANGUAGE DESCRIBING BOOK-ENTRY-ONLY ISSUANCE
(Prepared by DTC—bracketed material may be applicable only to certain issues)

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.]

2. DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.]

[6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.]

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

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

[9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.]

10. DTC may discontinue providing its services as securities depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Security certificates are required to be printed and delivered.

11. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

APPENDIX F
FINANCIAL GUARANTY INSURANCE POLICY SPECIMEN

CITY OF PORTLAND, OREGON

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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

SPECIMEN

President

Attest:

Assistant Secretary

STD-R-7
01/05

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