ANNUAL DISCLOSURE INFORMATION

Pertaining to

City of Portland, Oregon

$21,240,000

Lents Town Center
Urban Renewal and Redevelopment Bonds
2010 Series A (Federally Taxable)
Dated June 24, 2010

$15,650,000

Lents Town Center
Urban Renewal and Redevelopment Bonds
2010 Series B (Tax Exempt)
Dated June 24, 2010

February 15, 2015

MATURITY SCHEDULES

$21,240,000
Lents Town Center
Urban Renewal and Redevelopment Bonds
2010 Series A (Federally Taxable)

Due June 15	Principal Amount	Interest Rate	CUSIP No. 736746
2015	$1,290,000	4.553%	UD8

$7,570,000 5.784% 2010 Series A Term Bonds due June 15, 2020;
CUSIP Number 736746UE6

$7,625,000 6.284% 2010 Series A Term Bonds due June 15, 2024;
CUSIP Number 736746UF3

$15,650,000
Lents Town Center
Urban Renewal and Redevelopment Bonds
2010 Series B (Tax Exempt)

Due June 15	Principal Amount	Interest Rate	CUSIP No. 736746
2024	$220,000	4.25%	UG1
2025	2,275,000	5.00	UH9
2026	950,000	4.50	UJ5
2026	1,440,000	5.00	UK2
2027	2,500,000	5.00	UL0
2028	1,450,000	4.75	UM8
2028	1,175,000	5.00	UN6
2029	2,755,000	4.75	UP1
2030	2,885,000	5.00	UQ9

ANNUAL DISCLOSURE INFORMATION

Pertaining to:

$21,240,000
City of Portland, Oregon
Lents Town Center Urban Renewal and Redevelopment Bonds,
2010 Series A (Federally Taxable)
Dated June 24, 2010

$15,650,000
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Lents Town Center Urban Renewal and Redevelopment Bonds,
2010 Series B (Tax Exempt)
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Information Updated as of February 15, 2015

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INFORMATION PERTAINING TO LENTS TOWN CENTER TAX INCREMENT REVENUES

HISTORICAL TRENDS IN REAL MARKET VALUES AND ASSESSED VALUES

The table below presents a five-year history of Real Market Value and Assessed Value in the Area. In FY 2009-10, a large increase in Area property value was due to the effects of a Plan amendment, which added acreage to the Area and increased the Frozen Base Assessed Value from $640,177,922 to $736,224,033. The higher FY 2012-13 utility value is largely attributable to CenturyLink, which added about $5.1 million of Real Market Value and Assessed Value. The higher FY 2014-15 Real Market Value for Machinery/Equipment is largely attributable to Bridgetown Natural Foods LLC, which added about $8.6 million of Real Market Value; however, the property received an Enterprise Zone property tax exemption of $8.6 million, resulting in virtually no change in Assessed Value between FYs 2013-14 and 2014-15.

Table 1
CITY OF PORTLAND, OREGON
Lents Town Center Urban Renewal Area
HISTORICAL TRENDS IN REAL MARKET AND ASSESSED VALUES
BY PROPERTY TYPE
(FY 2010-11 through FY 2014-15)

	REAL MARKET VALUE				
Property Type	2010-11	2011-12	2012-13	2013-14	2014-15
Real	$2,259,314,860	$2,042,216,150	$1,983,393,240	$2,061,196,620	$2,235,072,580
Personal	42,469,923	40,212,101	41,397,108	43,082,005	42,988,358
Machinery/Equip. (1)	0	0	5,263,480	8,791,360	18,696,850
Manufactured	2,761,790	2,669,210	2,261,010	2,390,080	2,394,080
Utility	22,475,378	23,382,741	28,506,133	27,564,089	28,348,047
Total	$2,327,021,951	$2,108,480,202	$2,060,820,971	$2,143,024,154	$2,327,499,915
% Change	-4.1%	-9.4%	-2.3%	4.0%	8.6%

	ASSESSED VALUE				
Property Type	2010-11	2011-12	2012-13	2013-14	2014-15
Real	$1,152,518,860	$1,187,469,910	$1,205,668,060	$1,256,382,330	$1,306,233,980
Personal	41,625,034	39,256,230	40,329,320	41,749,315	41,220,058
Machinery/Equip. (1)	0	0	5,263,480	8,679,620	9,690,470
Manufactured	2,296,360	2,225,740	1,846,820	1,963,390	2,003,940
Utility	22,238,900	23,044,140	28,358,200	27,316,410	27,921,900
Total	$1,218,679,154	$1,251,996,020	$1,281,465,880	$1,336,091,065	$1,387,070,348
% Change	2.1%	2.7%	2.4%	4.3%	3.8%
Incremental AV	$482,455,121	$515,771,987	$545,241,847	$599,867,032	$599,867,032
% Change	5.4%	6.9%	5.7%	10.0%	8.5%

Notes:

(1) Senate Bill 1529, which became effective in June 2012, required the Oregon Department of Revenue to establish a separate class for real property machinery and equipment effective with tax year 2012-13.

Source: Multnomah County Division of Assessment, Recording and Taxation.

The table below shows Assessed Value ("AV") from FY 2005-06 through FY 2014-15.

Table 2
CITY OF PORTLAND, OREGON
Lents Town Center Urban Renewal Area
HISTORICAL ASSESSED VALUE
(FY 2005-06 through FY 2014-15)

Fiscal Year	Frozen Base	Incremental Value	% Change Incremental AV	Total Assessed Value	% Change Total AV
2005-06	640,177,922	275,822,211	13.4%	916,000,133	3.7%
2006-07	640,177,922	312,317,448	13.2%	952,495,370	4.0%
2007-08	640,177,922	358,801,970	14.9%	998,979,892	4.9%
2008-09	640,177,922	400,982,105	11.8%	1,041,160,027	4.2%
2009-10 (1)	736,224,033	457,950,622	14.2%	1,194,174,655	14.7%
2010-11	736,224,033	482,455,121	5.4%	1,218,679,154	2.1%
2011-12	736,224,033	515,771,987	6.9%	1,251,996,020	2.7%
2012-13	736,224,033	545,241,847	5.7%	1,281,465,880	2.4%
2013-14	736,224,033	599,867,032	10.0%	1,336,091,065	4.3%
2014-15	736,224,033	650,846,315	8.5%	1,387,070,348	3.8%

Notes:

(1) Reflects effect of First Amendment to the Lents Town Center Plan, adopted by the City Council on June 25, 2008 and recorded by Multnomah County on July 2, 2008, which added $96,046,111 to the Frozen Base of the Area.

Source: Multnomah County Division of Assessment, Recording and Taxation.

Property Types and Values

The Assessed Value for new construction and changed property is calculated by multiplying the Real Market Value of the property by the ratio of the Assessed Values to the Real Market Values of comparable properties in a county (the "Changed Property Ratio"). This produces an Assessed Value for new construction and changed property that approximates the Assessed Value of comparable existing properties in an area. The following table presents a five-year history of Changed Property Ratios for Multnomah County for various property classifications. Increases in the changed property ratios for commercial and industrial property in FY 2012-13 are due in part to legislation requiring separate classifications for machinery and equipment, centrally assessed industrial property, and locally-assessed industrial and commercial property combined.

Table 3
CITY OF PORTLAND, OREGON
History of Changed Property Ratios by Property Type
(Multnomah County)

Fiscal Year Ending June 30	2010-11	2011-12	2012-13	2013-14	2014-15
Residential	0.6040	0.6931	0.7279	0.6972	0.6367
Commercial/Local Industrial (1)	0.4549	0.4883	0.5413	0.5699	0.5654
State Industrial (1)	0.8750	0.8376	1.0000	1.0000	1.0000
Multi-Family	0.5420	0.5644	0.5998	0.5837	0.5506
Recreational	0.6565	0.7087	0.6979	0.8064	0.7962
Machinery and Equipment (2)	N/A	N/A	1.0000	1.0000	1.0000
Miscellaneous	0.6863	0.6724	0.6601	0.6663	0.6533
Personal Property	1.0000	1.0000	1.0000	1.0000	1.0000

Notes:

(1) In FY 2012-13, Multnomah County reported property values for commercial and County-assessed industrial properties as a combined value and reported industrial property assessed by the State of Oregon separately. In prior Annual Disclosure documents, the County-assessed and State-assessed industrial property values have been combined, and commercial property value has been reported separately.

(2) Senate Bill 1529, which became effective in June 2012, required the Oregon Department of Revenue to establish a separate class for real property machinery and equipment effective with tax year 2012-13.

Source: Multnomah County Division of Assessment, Recording and Taxation.

The following table shows Assessed Value, Real Market Value and Assessed/Real Market Property Ratios for types of property in the Area. Note that for purposes of collecting Divide the Taxes Revenues, property taxes are levied on all property types shown in the table.

Table 4
CITY OF PORTLAND, OREGON
Lents Town Center Urban Renewal Area
ASSESSED AND REAL MARKET VALUE BY PROPERTY TYPE (1)
(FY 2014-15)

Property Class	Assessed Value	% of Total	Real Market Value	AV/Real Market Value Ratio
Real Property				
Residential Property	$891,269,350	64.3%	$1,245,424,200	71.6%
Commercial/Industrial (County Assessed)	328,473,550	23.7%	819,541,230	40.1%
Industrial (State Assessed)	1,599,820	0.1%	1,599,820	100.0%
Multiple Family Housing	79,902,410	5.8%	5,107,540	55.1%
Other	795,190	0.1%	18,683,390	4.3%
Subtotal	1,302,040,320	93.9%	2,230,356,180	
Personal Property	41,220,058	3.0%	42,988,358	95.9%
Machinery/Equipment (2)	9,690,470	0.7%	18,696,850	51.8%
Manufactured Structures				
Real Property	4,193,660	0.3%	4,716,400	88.9%
Personal Property	2,003,940	0.1%	2,394,080	83.7%
Utilities	27,921,900	2.0%	28,348,047	98.5%
TOTAL	$1,387,070,348	100.0%	$2,327,499,915	

Notes:

(1) Beginning in FY 2012-13, Multnomah County reported property values for commercial and County-assessed industrial properties as a combined value and reported industrial property assessed by the State of Oregon separately. In prior Annual Disclosure documents, the County-assessed and State-assessed industrial property values have been combined, and commercial property value has been reported separately.

(2) Senate Bill 1529, which became effective in June 2012, required the Oregon Department of Revenue to establish a separate class for real property machinery and equipment effective with tax year 2012-13.

Source: Table 7a – TAXABLE ASSESSED VALUE AND REAL MARKET VALUE BY PROPERTY CLASS, Tax Year 2014-15, Lents Town Center Urban Renewal District, Multnomah County Division of Assessment, Recording and Taxation.

The following table shows the Assessed Value and Real Market Value ratios by ratio category for all property types in the Area. Properties with low AV/RMV ratios have substantial room to grow at the three percent limit established by the Oregon Constitution. Approximately 40 percent of properties have AV/RMV ratios below 70 percent as of FY 2014-15.

Table 5
CITY OF PORTLAND, OREGON
Lents Town Center Urban Renewal Area
ASSESSED TO REAL MARKET VALUE RATIOS
(FY 2014-15)

AV/RMV Ratio	Assessed Value	Percent of Total	Cumulative Percent of Total
Under 30%	$23,935,540	1.7%	1.7%
30 - 39%	18,641,010	1.3%	3.1%
40 - 49%	79,594,710	5.7%	8.8%
50 - 59%	211,902,600	15.3%	24.1%
60 - 69%	216,524,620	15.6%	39.7%
70 - 79%	346,897,420	25.0%	64.7%
80 - 89%	234,794,180	16.9%	81.6%
90 - 99%	128,689,690	9.3%	90.9%
100%	126,090,578	9.1%	100.0%
TOTAL	$1,387,070,348	100.0%	

Source: Multnomah County Division of Assessment, Recording and Taxation.

Principal Taxpayers

The principal property taxpayer accounts in the Area are listed in the following table.

Table 6
CITY OF PORTLAND, OREGON
Lents Town Center Urban Renewal Area
TOP TEN PROPERTY TAXPAYER ACCOUNTS

Company Name	Type of Business/Use	2014-15 Assessed Value	Percent of Total Assessed Value
Total Lents Town Center		$1,387,070,348	100.0%
Eastport Plaza Shopping Center	Retail	35,995,300	2.6%
Wal-Mart Real Estate Business	Retail	16,430,130	1.2%
Powell Street Limited Partnership (1)	Retail	13,614,060	1.0%
IIT Foster CC LLC	Retail (warehouse)	11,103,810	0.8%
Portland General Electric	Energy	10,661,600	0.8%
Fred Meyer Stores, Inc.	Retail/grocery	10,099,840	0.7%
Union Retirement Association	Senior facility	7,108,850	0.5%
CenturyLink	Communication	5,483,800	0.4%
Western Graphics (US) Inc.	Printer	5,030,400	0.4%
Northwest Natural Gas Co.	Energy	4,456,900	0.3%
		$119,984,690	8.7%

Notes:
(1) Powell Street Limited Partnership has filed an appeal for property with Real Market Value of $14,698,430 and Assessed Value of $13,614,060. The actual amount of property value being appealed is unknown. A decision on the appeals is not expected before April or May 2015.

Source: Multnomah County Division of Assessment, Recording and Taxation.

OTHER FACTORS AFFECTING TAX COLLECTIONS

Property Tax Rates

The Divide the Taxes Revenues are calculated by multiplying the Incremental Assessed Value of the Area by the consolidated billing tax rate, which is the sum of the tax rates of taxing districts that overlap the Area, excluding the rate for the urban renewal special levy. The following tables show the consolidated billing tax rate for the past five years, and the breakdown of tax rates attributable to each Levy Code Area making up the Area for FY 2014-15. A Levy Code Area consists of a set of properties for which the consolidated billing tax rate is comprised of the tax rates of a unique mix of taxing jurisdictions. For FY 2014-15, Levy Code Area 703 represented approximately 68 percent of the Area's Incremental Assessed Value, Levy Code Area 705 represented 32 percent of Incremental Assessed Value, and Levy Code Area 704 represented less than one percent of Incremental Assessed Value.

Table 7
CITY OF PORTLAND, OREGON
Lents Town Center Urban Renewal Area
CONSOLIDATED TAX RATE BY LEVY CODE AREA

Fiscal Year Ending June 30	703	704	705
2011	$21.4806	$21.3801	$21.2359
2012	21.9959	21.1233	21.0169
2013	22.2011	21.3166	21.1432
2014	23.8575	21.8271	21.5846
2015	23.2260	21.2864	21.0559

Source: Multnomah County Division of Assessment, Recording and Taxation.

Divide the Taxes Revenue Reductions Due to Measure 5 Compression

Divide the Taxes Revenues may be reduced by Measure 5 compression effects or delinquencies in tax collections. In FY 2014-15, Measure 5's $10/$1,000 tax rate cap was the primary factor in reducing the Divide the Taxes Revenues in the Area to $13,229,753 from the authorized amount of $14,666,044, or by about 9.8 percent, as shown in the table below.

Table 8
CITY OF PORTLAND, OREGON
Lents Town Center Urban Renewal Area
EFFECTS OF COMPRESSION ON DIVIDE THE TAXES REVENUES

Year	Divide the Taxes Revenue To Raise (1)	Divide the Taxes Revenues Imposed (2)	Losses Due Compression and Other Factors
2005-06	$5,531,912	$5,250,789	5.1%
2006-07	6,347,973	6,078,977	4.2%
2007-08	7,740,123	7,376,110	4.7%
2008-09	8,428,047	8,056,078	4.4%
2009-10	9,839,373	9,344,988	5.0%
2010-11	10,324,952	9,685,618	6.2%
2011-12	11,181,492	10,098,006	9.7%
2012-13	11,926,588	10,524,133	11.8%
2013-14	13,879,633	12,003,585	13.5%
2014-15	14,666,044	13,229,753	9.8%

Notes:

(1) Prior to Measure 5 Compression.
(2) After Measure 5 Compression but before losses due to delinquencies and discounts.

Sources: Multnomah County Division of Assessment, Recording and Taxation.

Divide the Taxes Revenue Reductions Due to Delinquencies

Property tax collections are also reduced by delinquencies and discounts. The following table shows property tax collections over the past ten fiscal years. In recent years, taxes collected in the year in which they were levied have generally exceeded 95 percent. Note that, under current State law, tax collections at the county level are pooled, and each taxing jurisdiction (including urban renewal areas) receives a *pro rata* distribution of county-wide collections. This practice has the effect of spreading delinquent payments county-wide.

Table 9
CITY OF PORTLAND, OREGON
Tax Collection Record for the Last Ten Years (1)

Fiscal Year	Total Levy (000) (2)	Collected Yr. of Levy (3)	Collected as of 11/30/2014 (3)
2005-06	$346,053	97.20%	99.99%
2006-07	363,073	97.29%	99.99%
2007-08	394,492	97.07%	99.99%
2008-09	397,822	96.43%	99.98%
2009-10	436,246	96.85%	99.60%
2010-11	445,239	97.22%	99.55%
2011-12	445,044	96.89%	98.98%
2012-13	452,453	97.26%	98.76%
2013-14	467,516	97.40%	98.19%
2014-15	490,540	89.34% (4)	89.34%

Notes:

(1) Tax collection information is for Multnomah County, which represents approximately 99.5% of the City's Assessed Value. Small portions of Washington and Clackamas Counties are also included in the City's Assessed Value.

(2) Includes urban renewal special levy and levy amounts allocated to urban renewal divide the taxes. Levy amounts shown are after Measure 5 compression. Also includes miscellaneous taxes, penalties, and corrections included in the fiscal year property tax receivable.

(3) Collections are calculated as payments received less adjustments for cancellation of taxes and allowed discounts, plus taxes added to tax roll due to omissions and corrections. Discounts currently represent the largest adjustment to the tax levy. Discounts associated with the FY 2014-15 tax levy represented about 2.6% of that year's levy. Discounts effectively reduce the amount of a fiscal year's levy remaining to be collected in future years.

(4) Partial year collection as of 11/30/2014.

Sources: Multnomah County Division of Assessment, Recording and Taxation and City of Portland.

HISTORICAL TAX INCREMENT REVENUES, DEBT SERVICE AND OUTSTANDING DEBT

The following table shows historical collections of Divide the Taxes Revenues in the Lents Town Center Urban Renewal Area Debt Redemption Fund (the Tax Increment Fund).

Table 10
CITY OF PORTLAND, OREGON
Lents Town Center Urban Renewal Area
HISTORICAL TAX INCREMENT REVENUE COLLECTIONS
(Actual Results Reported on a Budgetary Basis)

	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14
Tax Increment Revenues					
Tax Collections (Current Year)	$8,849,998	$9,171,402	$9,510,177	$9,984,372	$11,403,684
Tax Collections (Prior Years) (1)	200,645	207,886	203,205	230,463	201,374
Investment Earnings	33,720	39,123	45,523	31,424	31,087
TOTAL	$9,084,363	$9,418,411	$9,758,905	$10,246,259	$11,636,145
Annual Debt Service					
Parity Indebtedness	$0	$3,031,655	$3,030,028	$3,028,784	$3,028,850
TOTAL	$0	$3,031,655	$3,030,028	$3,028,784	$3,028,850

Notes:

(1) Property taxes collected from prior year delinquencies.

Source: City of Portland.

The following table presents a summary of historical property values, consolidated tax rates, current year Divide the Taxes collections and Annual Debt Service on the Bonds. There were no Bonds prior to the issuance of the City's Lents Town Center Urban Renewal and Redevelopment Bonds, 2010 Series A and 2010 Series B issued in June 2010.

Table 11
CITY OF PORTLAND, OREGON
Lents Town Center Urban Renewal Area
SUMMARY OF LENTS TOWN CENTER PROPERTY VALUE, TAX INCREMENT REVENUE COLLECTIONS, AND DEBT SERVICE

Fiscal Year	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**
Real Market Value	$2,427,420,945	$2,327,021,951	$2,108,480,202	$2,060,820,971	$2,143,024,154
Assessed Value:					
Frozen Base	$736,224,033	$736,224,033	$736,224,033	$736,224,033	$736,224,033
Incremental Assessed Value	457,950,622	482,455,121	515,771,987	545,241,847	599,867,032
Total Assessed Value	$1,194,174,655	$1,218,679,154	$1,251,996,020	$1,281,465,880	$1,336,091,065
Consolidated Tax Rate (1)	$21.4857	$21.4009	$21.6791	$21.8739	$23.1378
Taxes to be Raised	$9,839,373	$10,324,952	$11,181,492	$11,926,588	$13,879,633
Less Compression	(494,386)	(639,334)	(1,083,486)	(1,402,455)	(1,876,047)
Taxes Imposed	9,344,988	9,685,618	10,098,006	10,524,133	12,003,585
Less Delinquencies/ Discounts	(494,990)	(514,216)	(587,828)	(539,761)	(599,901)
Net Divide the Taxes	$8,849,998	$9,171,402	$9,510,178	$9,984,372	$11,403,684
Debt Service:					
2010 Series A (Taxable)	$0	$2,285,208	$2,264,440	$2,263,196	$2,263,262
2010 Series B (Tax Exempt)	0	746,448	765,588	765,588	765,588
Total	$0	$3,031,655	$3,030,028	$3,028,784	$3,028,850
Debt Service Coverage (x)	N.A.	3.03	3.14	3.30	3.77

Notes:

(1) Blended rate for three Levy Code Areas making up the Area.

Source: Multnomah County Division of Assessment, Recording and Taxation and City of Portland.

OUTSTANDING INDEBTEDNESS

The following table presents debt outstanding for the Lents Town Center Urban Renewal Area as of February 15, 2015.

Table 12
CITY OF PORTLAND, OREGON
Lents Town Center Urban Renewal Area
OUTSTANDING LONG-TERM DEBT AS OF FEBRUARY 15, 2015

Issue Name	Dated Date	Maturity Date	Amount Issued	Amount Outstanding
Lents Town Center Urban Renewal and Redevelopment Bonds, 2010 Series A	6/24/2010	6/15/2024	$21,240,000	$16,485,000
Lents Town Center Urban Renewal and Redevelopment Bonds, 2010 Series B	6/24/2010	6/15/2030	$15,650,000	$15,650,000
Total			$36,890,000	$32,135,000

Source: City of Portland.

As of February 15, 2015, the City had $2,882 outstanding principal on a line of credit established to provide interim financing for projects in the Lents Town Center Urban Renewal Area. The line has an available balance of $6,797,118, which expires in December 2016.

MAXIMUM INDEBTEDNESS

The Maximum Indebtedness amount for the Area is $245,000,000. The table below shows the estimated Maximum Indebtedness amount remaining as of February 15, 2015.

Table 13
CITY OF PORTLAND, OREGON
Lents Town Center Urban Renewal Area
MAXIMUM INDEBTEDNESS, AMOUNTS ISSUED, AND AMOUNTS REMAINING
(as of February 15, 2015)

Maximum Indebtedness Amount	$245,000,000
Less: Long-Term Debt (1)	(36,892,882)
Taxable Short-Term Debt (2)	(79,959,895)
Remaining Maximum Indebtedness	$128,147,223

Notes:

(1) Includes line of credit draws and/or long-term bonds.

(2) To comply with requirements that tax increment revenues be spent on bonded indebtedness, the City issues bonds with very short maturities (typically overnight). These bonds, known as "du jour bonds" are typically sold to commercial banks. All such bonds possess a lien on the Central Eastside Tax Increment Revenues that is subordinate to the lien of all other Parity Indebtedness.

Source: City of Portland.

CITY FINANCIAL AND OPERATING INFORMATION

BASIS OF ACCOUNTING

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

FISCAL YEAR

July 1 to June 30.

AUDITS

The Oregon Municipal Audit Law (ORS 297.405 - 297.555) requires an audit and examination be made of the accounts and financial affairs of every municipal corporation at least once each year. The audit shall be made by accountants whose names are included on the roster prepared by the State Board of Accountancy. Moss Adams LLP has performed auditing services for FY 2002-03 through FY 2013-14.

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

FINANCIAL REPORTING AND BUDGETING

Financial Reporting

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

Budget Process

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

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

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

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

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

INSURANCE

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

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

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

Personal Injury and Death Claim

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

Property Damage or Destruction Claim

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

PENSION PLANS

Overview

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

PERS are paid from the Oregon Public Employees' Retirement Fund ("OPERF"). PERS is a cost-sharing, multiple-employer public employee retirement system.

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

Benefit Programs

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

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

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

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

Apportionment of City Assets and Liabilities

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

Employer Asset Valuation and Liabilities

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

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

Table 14
OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM
Actuarial Assumptions and Methods

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

Notes:

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

Source: Oregon Public Employees Retirement System.

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

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

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

Table 15
OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM
Summary of Statewide PERS System Funding Levels
($ in Millions) [1]

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

Notes:

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

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

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

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

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

Source: Oregon Public Employees Retirement System.

Table 16
OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM
Summary of City Funding Levels
($ in Millions) [1]

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

Notes:

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

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

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

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

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

Source: Oregon Public Employees Retirement System.

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

Table 17
OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM
City Payroll for PERS Members and Unfunded Actuarial Liability

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

Source: Oregon Public Employees Retirement System.

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

State Investment Policy

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

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

Table 18
OREGON PUBLIC EMPLOYEES RETIREMENT FUND
Oregon PERS Investment Returns (1)

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

Notes:

(1) Total fund performance, excluding variable account.

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

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

Table 19
OREGON PUBLIC EMPLOYEES RETIREMENT FUND
Annualized Investment Results (1)

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

Notes:

(1) Total fund performance, excluding variable account.

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

Employer Contribution Rates and Amounts

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

PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. Employer contribution

rates are based upon the current and projected cost of benefits and the anticipated level of funding available from the OPERF, including known and anticipated investment performance of the OPERF.

At the end of each odd-numbered year, actuarial valuations determine the employer contribution rates that are officially set by the PERS Board. All employers participating in PERS are required to make their contribution to PERS based on the employer contribution rates set by the PERS Board. The City's employer contribution rates were derived using a rate stabilization methodology (the "Rate Collar") designed to cap rate increases and reduce large fluctuations in employer contribution rates. Such rate increases are shifted to future biennia, including the 2015-17 biennium. See Table 14 for a summary of the Rate Collar in effect for the 2012 City Report and the 2013 City Report.

The table below shows the City's current employer contribution rates. The table also shows the City's future rates for the 2015-17 biennium as reported in the 2013 City Report. The rates reflect the impact of legislation passed during the 2013 Oregon Legislature Special Session and are based on assumptions and methodologies adopted by the PERS Board at its September 27, 2013, meeting. See Table 14 for a summary of the assumptions and methodologies and see "—Recent Developments Related to PERS" below. The future rates are used by the City in projecting and planning for pension costs in future years. The rates reported in the table do not include the six percent and nine percent employee contribution rates for contributions to the IAP paid by the City. The City's contribution rates may increase or decrease due to a variety of factors, including the investment performance of the OPERF, the use of pension-related reserves, further changes to system valuation methodology and assumptions and decisions by the PERS Board, and changes in benefits resulting from legislative modifications.

Table 20
OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM
Current and Future Employer Contribution Rates
Percentage of Covered Payroll (1)

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

Notes:

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

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

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

City Funding Policy

In August 2014, the City Council approved a policy regarding funding of its PERS pension liability. The policy requires the City to make contributions at no less than the rate established by PERS Board and required by ORS 238.225. The City has always funded its full employer contribution as required by ORS 238.225. See "—Employer Contribution Rates and Amounts" above.

Pension Obligation Bonds

In addition to their PERS contribution, City bureaus in existence as of November 10, 1999 (the issue date of the bonds) are required to make a contribution to pay debt service on outstanding Limited Tax Pension Obligation Revenue Bonds (the "Pension Obligation Bonds"), which were issued to fund the City's share of the unfunded actuarial liabilities of PERS as of December 31, 1997. The Pension Obligation Bonds were issued in three series: one series of fixed rate bonds in an amount of $150,848,346 and two series of auction rate securities in an aggregate amount of $150,000,000. The final maturity of the fixed rate Pension Obligation Bonds is June 1, 2029. Pension Obligation Bonds issued as auction rate securities mature on June 1, 2019. Table 21 presents debt service on the City's Pension Obligation Bonds for the past ten fiscal years.

Proceeds of the Pension Obligation Bonds were deposited in an account with PERS. The City opted to amortize the original deposit ratably over the life of the bonds. Table 21 below shows the amount of bonds amortized annually and debt service paid by the City on its Pension Obligation Bonds. As of June 30, 2014, the remaining unamortized balance of the bond proceeds deposited with PERS was $132,540,936.

Total City Pension and RHIA Contribution

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

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

Table 21
CITY OF PORTLAND, OREGON
City Contributions to PERS and Total Pension-Related Contributions

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

Notes:

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

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

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

Source: City of Portland

Recent Developments Related to PERS

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

In addition to legislative actions, in 2013 the PERS Board made other adjustments that were estimated by PERS to increase the unfunded actuarial liability of the System by approximately $2.5 billion. See Table 14 for a summary of the changes made by the PERS Board.

As shown in Table 15, the unfunded actuarial liability of the PERS Statewide System decreased from $11.03 billion as of December 31, 2011, to $5.62 billion as of December 31, 2012 and to $2.58 billion as of December 31, 2013. That decrease reflects the combined effects of the 2013 PERS Bills, the 2013 Board changes, changes in the actuarial value of the System assets, 2013 investment returns well above the assumed earnings rate of 7.75 percent, and other factors that are taken into account in the formal valuation of the System by Milliman. See "Table 15—OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM—Summary of Statewide PERS System Funding Levels" and "Table 16—OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM—Summary of City Funding Levels."

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

Challenges to PERS Reforms

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

Fire and Police Disability and Retirement Fund

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

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

On November 7, 2006, voters in the City of Portland passed a measure that created the FPDR Three tier and changed the retirement plan benefits of new members to OPSRP. The FPDR levy pays the employee and employer portions of the OPSRP contribution. Performance audits have been implemented to assess the implementation of the FPDR Plan reforms. The initial and follow-up disability program audits were performed and a pension program audit was completed in January 2010. The FPDR Board has directed that the disability and pension programs be audited on a five-year cycle. The disability program audit is underway now and the pension audit will be undertaken in 2015.

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

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

The FPDR Plan is funded by a special property tax levy which cannot exceed two and eight-tenth mills on each dollar of valuation of property ($2.80 per $1,000 of real market value) not exempt from such levy. The FPDR property tax levy has been sufficient in

all years to meet required annual benefit payments. In the event that funding for the FPDR Plan is less than the required payment of benefits to be made in any particular year, the FPDR Fund could receive advances from the FPDR Reserve Fund first and other City funds second, to make up the difference. Repayment of advances, if any, would be made from the special property tax levy in the succeeding year. In the event that the special property tax levy is insufficient to pay benefits because benefits paid exceed the two and eight-tenth mills limit, other City funds would be required to make up the difference. The FY 2014-15 levy of $136,883,230 required a tax rate of $2.6671 per $1,000 of assessed property value, or approximately $1.48 per $1,000 of gross real market value.

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

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

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

OTHER POST-EMPLOYMENT RETIREMENT BENEFITS ("OPEB")

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

PERS Program

Retirees who receive pension benefits through the T1/T2 Pension Programs and are enrolled in certain PERS-administered health insurance programs may also receive a subsidy towards the payment of health insurance premiums. Under ORS 238.420, retirees may receive a subsidy for Medicare supplemental health insurance of up to $60 per month towards the cost of their health insurance premiums under the RHIA program. RHIA's assets and liabilities are pooled on a system-wide basis. These assets and liabilities are not tracked or calculated on an employer basis. The City's allocated share of the RHIA program's assets and liabilities is based on the City's proportionate share of the program's pooled covered payroll. According to the 2012 City Report, the City's allocated share of the RHIA program's UAL is $6,539,359 as of December 31, 2012, and according to the 2013 City Report, the City's allocated share of the RHIA program's UAL is $4,336,291as of December 31, 2013.

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

Health Insurance Continuation Option

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

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

The City's annual OPEB cost is calculated based on the actuarially-determined annual required contribution ("ARC"), which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded liability over a period of 30 years. For FY 2013-14, the amount to be recognized as the annual employer OPEB cost was $8,421,398. For fiscal year ended June 30, 2014, the City benefits paid on behalf of retirees exceeded the premiums they paid by $2,685,634. The City elected to not pre-fund the FY 2013-14 annual OPEB cost of $8,421,398. The amount unfunded in FY 2013-14 is $39,084,687, which is the OPEB obligation from the beginning of the fiscal year, plus the ARC for FY 2013-14 along with interest on the net OPEB obligation and adjustments, less payments made in relation to the FY 2013-14 net OPEB obligation. The City expects to use a pay-as-you-go approach to fund its actuarial accrued liability and OPEB obligation, but will monitor its OPEB liability and assess whether a different approach is needed in future years.

LITIGATION

No litigation is pending or threatened which would, if successfully prosecuted against the City or the Commission, materially and adversely affect the outstanding bonds or the Tax Increment Revenues.

APPENDIX
AUDITED FINANCIAL STATEMENTS

INTRODUCTION TO EXCERPTS OF FINANCIAL STATEMENTS

The financial statements of the City have been audited by independent certified public accountants for the fiscal years 2010, 2011, 2012, 2013 and 2014. Copies of these financial statements containing the reports of the independent certified public accountants are available on the City's website at:

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

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

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

CITY OF PORTLAND, OREGON
Lents Town Center Urban Renewal Area Debt Redemption Fund
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
Generally Accepted Accounting Principles Basis

	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14
Revenues					
Taxes	$9,050,644	$9,379,288	$9,713,382	$10,214,835	$11,605,058
Investment earnings	23,384	62,650	42,531	18,379	39,507
Total Revenues	9,074,028	9,441,938	9,755,913	10,233,214	11,644,565
Expenditures					
Debt Service:					
Principal	--	1,175,000	1,155,000	1,190,000	1,235,000
Interest	111,753	1,856,843	1,875,247	1,838,885	1,797,489
	--	--	--	--	2,882
Total Expenditures	111,753	3,031,843	3,030,247	3,028,885	3,035,371
Revenues Over (Under) Expenditures	31,538	6,410,095	6,725,666	7,204,329	8,609,194
Other Financing Sources (Uses)					
Transfers in	--	--	--	--	--
Transfers out	(8,000,000)	(6,450,000)	(7,519,895)	(7,305,000)	(8,620,000)
Bonds and notes issued	24,750,000	--	--	--	2,882
Bonds and notes premium	--	--	--	--	--
Payments to refunded loan and bond escrow agents	21,718,022	--	--	--	--
Total other financing sources (uses)	(4,967,408)	(6,450,000)	(7,519,895)	(7,305,000)	(8,617,118)
Net change in fund balances	3,994,867	(39,905)	(794,229)	(100,671)	(7,924)
Fund Balance (Beginning of Year)	174,188	4,169,055	4,129,150	3,334,921	3,234,250
Fund Balance (End of Year)	$4,169,055	$4,129,150	$3,334,921	$3,234,250	$3,226,326

Source: City of Portland audited financial statements.

CITY OF PORTLAND, OREGON
Lents Town Center Urban Renewal Area Debt Redemption Fund
CONSECUTIVE BALANCE SHEETS
As of June 30

	2010	2011	2012	2013	2014
ASSETS					
Restricted:					
Cash and investments	$4,003,197	$3,953,616	$3,151,800	$3,059,853	$3,064,859
Receivables:					
Property taxes	532,754	521,186	643,902	666,240	736,888
Accrued interest receivable	9,518	28,430	28,313	13,942	7,853
Total assets	$4,545,469	$4,503,232	$3,824,015	$3,740,035	$3,809,600
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities payable from restricted assets:					
Deferred revenue	$376,414	$374,082	$489,094	$ --	$ --
Deferred inflows of resources:					
Unavailable revenue - restricted	--	--	--	505,785	583,274
Total liabilities and deferred inflows of resources	376,414	374,082	489,094	505,785	583,274
Fund balances:					
Unreserved	4,169,055	--	--	--	--
Restricted	--	4,129,150	3,334,921	3,234,250	3,226,326
Total fund balances	4,169,055	4,129,150	3,334,921	3,234,250	3,226,326
Total liabilities, deferred inflows of resources and fund balances	$4,545,469	$4,503,232	$3,824,015	$3,740,035	$3,809,600

Source: City of Portland audited financial statements.