# CITY OF PORTLAND, OREGON HYDROELECTRIC POWER FUND

# INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

**AUGUST 31, 2005 AND 2004** 

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CERTIFIED PUBLIC ACCOUNTANTS

#### INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Council Members City of Portland, Oregon

We have audited the accompanying balance sheets of the City of Portland, Oregon Hydroelectric Power Fund (the Fund) as of August 31, 2005 and 2004 and the related statements of revenues, expenses and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the City of Portland, Oregon Hydroelectric Power Fund prepares its financial statements in accordance with the accounting requirements as set forth in the Power Sales Agreement with Portland General Electric Company, dated April 12, 1979, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial statements present only the City of Portland, Oregon Hydroelectric Power Fund and are not intended to present the financial position of the City of Portland, Oregon, or the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Portland, Oregon Hydroelectric Power Fund as of August 31, 2005 and 2004 and the results of its operations and cash flows for the years then ended in conformity with the basis of accounting described in Note 1.

Moss Adams LLP

Vancouver, Washington December 16, 2005

# CITY OF PORTLAND, OREGON HYDROELECTRIC POWER FUND BALANCE SHEET

	AUGUST 31,							
	2005	2004						
UNRESTRICTED CURRENT ASSETS								
Cash and cash equivalents	\$ 339,684	\$ 344,849						
Accrued interest receivable	1,653	959						
Total unrestricted current assets	341,337	345,808						
RESTRICTED CURRENT ASSETS								
Renewal and replacement								
Cash and cash equivalents	9,061,178	150,946						
Investments	-	8,529,365						
Accrued interest receivable	-	5,803						
Debt service								
Cash and cash equivalents	2,694,389	37						
Investments	-	2,593,177						
Accrued interest receivable	-	17,261						
Power sales receivable	362,706	412,675						
Total restricted current assets	12,118,273	11,709,264						
RESTRICTED NONCURRENT ASSETS								
Debt service								
Cash and cash equivalents	2,969,048	165						
Investments		2,919,375						
Total restricted noncurrent assets	2,969,048	2,919,540						
UTILITY PLANT, net	28,159,871	28,815,870						
OTHER								
Prepaid pension asset	210,387	219,003						
Total assets	\$ 43,798,916	\$ 44,009,485						

# CITY OF PORTLAND, OREGON HYDROELECTRIC POWER FUND BALANCE SHEET

		AUGU	JST 31	l,	
		2005		2004	
CURRENT LIABILITIES PAYABLE FROM		_			
UNRESTRICTED ASSETS					
Accounts payable	\$	9,050	\$	9,547	
Accrued liabilities		41,859		36,791	
Due to other funds		10,020		6,463	
Total current liabilities payable from unrestricted asset		60,929		52,801	
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS					
Interest payable		701,730		752,358	
Revenue bonds payable within one year		2,115,000	1,970,000		
Total current liabilities payable from restricted assets		2,816,730		2,722,358	
LONG-TERM DEBT, net of current portion					
Revenue bonds	2	22,058,493		24,173,493	
Less unamortized discount		(125,963)		(150,099)	
Total long-term debt	2	21,932,530		24,023,394	
Total liabilities	2	24,810,189		26,798,553	
RETAINED EARNINGS					
Reserved for bonded debt service		3,708,530		3,700,675	
Unreserved retained earnings	1	15,280,197		13,510,257	
Total retained earnings	1	18,988,727		17,210,932	
Total liabilities and retained earnings	\$ 4	13,798,916	\$	44,009,485	

## CITY OF PORTLAND, OREGON HYDROELECTRIC POWER FUND STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS

	YEAR ENDED AUGUST 31,						
	2005	2004					
OPERATING REVENUES							
Power sales	\$ 4,488,407	\$ 4,543,358					
Service charges and fees	103,740	34,016					
Total operating revenues	4,592,147	4,577,374					
OPERATING EXPENSES							
Salaries, wages and fringe benefits	215,574	195,555					
Operations and maintenance	533,014	585,429					
Depreciation	655,999	676,496					
Total operating expenses	1,404,587	1,457,480					
OPERATING INCOME	3,187,560	3,119,894					
NONOPERATING REVENUES (EXPENSES)							
Other miscellaneous expense	(8,616)	(8,616)					
Investment income	314,180	141,284					
Interest expense	(1,715,329)	(1,837,671)					
Net nonoperating expenses	(1,409,765)	(1,705,003)					
NET INCOME	1,777,795	1,414,891					
RETAINED EARNINGS, beginning of year	17,210,932	15,796,041					
RETAINED EARNINGS, end of year	\$ 18,988,727	\$ 17,210,932					

	YEAR ENDED AUGUST 31,							
	2005	2004						
CASH FLOWS FROM OPERATING ACTIVITIES								
Operating income	\$ 3,187,560	\$ 3,119,894						
Adjustments to reconcile operating income to net cash								
from operating activities								
Depreciation	655,999	676,496						
Other	-	(1,438)						
Changes in assets and liabilities								
Power sales receivable	49,969	(48,251)						
Accounts payable	(497)	(1,268)						
Accrued liabilities	5,068	1,193						
Due to other funds	3,557	(1,563)						
Net cash from operating activities	3,901,656	3,745,063						
CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES								
Principal paid on bonds	(1,970,000)	(1,855,000)						
Interest paid on bonds	(1,741,821)	(1,863,602)						
Net cash from capital related financing activities	(3,711,821)	(3,718,602)						
CASH FLOWS FROM INVESTING ACTIVITIES								
Investment income	336,550	135,042						
Net activity from investments	14,041,917	(8,925,920)						
Net cash from investing activities	14,378,467	(8,790,878)						
CHANGE IN CASH AND CASH EQUIVALENTS	14,568,302	(8,764,417)						
CASH AND CASH EQUIVALENTS, beginning of year	495,997	9,260,414						
CASH AND CASH EQUIVALENTS, end of year	\$ 15,064,299	\$ 495,997						

## **Note 1 - Summary of Significant Accounting Policies**

Organization and basis of accounting and presentation - The City of Portland, Oregon Hydroelectric Power Fund (the Fund) operates generating facilities at Bull Run Dam Nos. 1 and 2 which are part of the City of Portland, Oregon (the City) water supply system. The Fund is managed by the Bureau of Hydroelectric Power, City of Portland, Oregon and is accounted for by the City as an enterprise fund on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded at the time they are earned and expenses are recognized at the time liabilities are incurred.

The accounts are kept in accordance with the requirements set forth in the Power Sales Agreement (See Note 6) with Portland General Electric Company, which principally requires the Fund to utilize the Uniform System of Accounts for electric utilities prescribed by the Federal Energy Regulatory Commission (FERC).

The financial statements present only the Fund and are not intended to present fairly the financial position of the City and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds in conformity with accounting principles generally accepted in the United States of America.

**Cash and cash equivalents** - The Fund considers cash on hand and all investments with original maturities of 90 days or less as authorized by the trust indenture for the Hydroelectric Power Revenue Bonds to be cash and cash equivalents. See Notes 2 and 3.

**Investments** - Investments are reported at fair value. See Notes 2 and 3.

**Restricted assets and liabilities** - Assets whose uses are legally restricted for renewal and replacement, debt service and other purposes by the hydroelectric power revenue bond ordinances and trust agreements and related liabilities are segregated as restricted current or noncurrent assets and liabilities on the balance sheets.

**Revenue recognition and power sales receivable** - The Fund recognizes revenue in accordance with the Power Sales Agreement with Portland General Electric Company. See Note 6.

## **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Utility plant and depreciation** - Utility plant is stated at the original cost of contracted services, direct labor and material, interest capitalized during construction and indirect charges for engineering, supervision and similar overhead items. Costs of repairs and minor replacements are charged to appropriate operating expense accounts. Costs of significant renewals, betterments and additions are capitalized. The cost of plant retired and removal cost, less salvage, are charged to accumulated depreciation when property is removed from service, except that losses on early plant retirements, due to causes which are not factors related to depreciation, are recognized in operations. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets which range from 10 to 100 years.

Management evaluates utility plant for impairment and retirement obligations annually or as circumstances warrant.

Prepaid pension asset - Substantially all of the Fund's employees are participants in the State of Oregon Public Employees Retirement System (PERS). Contributions to PERS are made by the City and have historically been made based on the annual required contribution. Such contributions were allocated to the Fund and charged to expense as funded. In fiscal 2000, the City contributed an amount in excess of the annual required contribution to finance the estimated Unfunded Accumulated Actuarial Liability (UAAL) of the City with PERS. Beginning in fiscal 2001-2002, the financing of the UAAL is allocated to the Fund, as well as the general government, enterprise funds and internal service funds, for those funds to recognize their appropriate share of the financing. The allocation was based on the Fund's weighted average contribution to PERS in fiscal 1999. In accordance with GASB Statement No. 27, Accounting for Pensions by State and Local Government Employers, amounts contributed in excess of the annual required contributions are recorded as a pension related asset and amortized on a straight line basis over 30 years, beginning with fiscal year 2000.

**Vacation and sick pay** - Vacation pay is recorded as an expense when earned. Employees may not accumulate more than the vacation earned in a two-year period. Sick pay, which does not vest, is recorded as an expense when leave is taken.

**Revenue bond discount** - Revenue bond discount resulting from hydroelectric power revenue bond issues is amortized over the related debt repayment period using the effective interest method.

**Retained earnings reserved for bonded debt service** - A portion of retained earnings has been segregated for amounts legally required to be set aside to pay bonded debt service in accordance with revenue bond ordinances and trust agreements.

**Income taxes** - As a governmental unit, the Fund is generally not subject to federal or state income taxes.

## **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Self-insurance** - The Fund is covered through the City's self-insurance activities for workers' compensation and general liability claims and certain employee medical coverage based on experience of employees of the Fund. The liability for estimated losses is recorded in the City's internal service funds. See Note IV A in the City of Portland, Oregon Comprehensive Annual Financial Report as of June 30, 2005 for more complete information.

**Use of estimates** - The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Reclassifications** - Certain reclassifications have been made to prior year balances in order to conform to current year financial statement presentation.

## **Note 2 - Cash and Cash Equivalents**

Cash and cash equivalents at August 31, 2005 are as follows:

	Unrest	ricted Current	Re	stricted Currer Equiv			Nor	Restricted acurrent Cash and Cash cquivalents		
		h and Cash uivalents	Renewal and replacement		Debt service		Debt service reserve			Total
Cash on hand and on deposit Cash with City Treasurer Cash equivalents United States Government securities held under bank repurchase agreements	\$	339,684	\$	43,760 9,017,418	\$	2,694,389	\$	2.969,048		383,444 14,680.855
reparents agreements	\$	339,684	\$	9,061,178	\$	2,694,389	\$	2,969,048	\$	15,064,299

## **Note 2 - Cash and Cash Equivalents (Continued)**

Cash and cash equivalents at August 31, 2004 are as follows:

	Unrest	ricted Current	Rest	tricted Curre	nt Cash a	and Cash	Noncu	stricted rrent Cash d Cash ivalents		
	Cash and Cash Equivalents			Renewal and replacement		Debt service		Debt service reserve		Total
Cash on hand and on deposit Cash with City Treasurer Cash equivalents United States Government securities held under bank	\$	344,849	\$	43,760	\$	-	\$	-	\$	388,609
repurchase agreements		-		107,186		37	-	165		107,388
	\$	344,849	\$	150,946	\$	37	\$	165	\$	495,997

Most cash equivalents are invested in direct obligations of the United States and the agencies and instrumentalities of the United States or repurchase agreements collateralized by legally issued general obligations of the United States and the agencies and instrumentalities of the United States. As provided by the trust indenture, all repurchase agreements are considered direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America. All repurchase agreement transactions are currently managed by U.S. Bank Corporate Trust Services as part of the amended trust indenture agreement for the Hydroelectric Power Revenue Bonds. The market yield rate was 3.14% and 1.23% at August 31, 2005 and 2004, respectively.

Cash with the City Treasurer is part of an investment pool. The pool is available for use by all City funds. All investment pool cash purchases and sales are part of the City's cash management activity and considered cash and cash equivalents. Interest earned from the pooled investments is allocated to each fund based on the average earnings rate and daily cash balance of each fund. The City has recorded investments at fair value. City Treasury assesses a management fee that is deducted from investment income before distributions are made to all City funds.

#### **Note 3 - Deposits and Investments**

Cash and investments are comprised of governmental activities. The balances at August 31, 2005 and 2004 are as follows:

	 2005	2004
Deposits with financial institutions - City Treasurer	\$ 383,444	\$ 388,609
Investments - Repurchase Agreements	14,680,855	107,388
Investments - Government Securities	 -	14,041,917
	\$ 15,064,299	\$ 14,537,914

### **Deposits**

Custodial credit risk - This is the risk that in the event of a bank failure, the Fund's deposits may not be returned to it. The Fund's deposit policy is in accordance with the City's Investment Policy and ORS 295.015 that governs investment of public funds. For fiscal years 2005 and 2004, the Fund's exposure to bank deposits were limited to the Fund's cash with the City Treasurer. All deposits were covered by federal depository insurance up to \$100,000 and collateralized with eligible securities in amounts equal to at least 25 percent of the book value of deposits as required by ORS 294.035. All collateral securities were held by third parties in the Fund's name and consequently were not exposed to custodial credit risk.

#### **Investments**

The Fund's investment activity is limited to purchases of Qualified Securities as defined by the trust indenture for the Hydroelectric Power Revenue Bonds as well as all authorized investments within the parameters of the City's investment policy.

The Fund does not invest in any form of derivatives or reverse repurchase agreements and does not leverage its investment portfolio in any manner.

The following investments are permitted under the trust indenture for the Hydroelectric Power Revenue Bonds as well as the City's investment policy, ORS 294.035 and ORS 294.810:

- United States Treasury Debt Obligations
- United States Agency Debt Obligations
- Banker's Acceptances
- Commercial Paper issued by United States Corporations
- Interest Bearing Deposits in State of Oregon Financial Institutions
- State of Oregon Local Government Investment Pool
- Repurchase Agreements Secured by United Sates Treasury Debt Obligations

#### **Note 3 - Deposits and Investments (Continued)**

Interest rate risk - To minimize interest rate risk, the City's investment policy limits the Fund's portfolio to a maximum weighted average maturity of eighteen months. In addition, no more than 50% of the projected lowest cash balance may be invested in securities with a maturity range beyond two years. All other funds must be invested in less than two-year maturities and must meet the Fund's cash flow requirements. Investments with maturities greater than two years may be purchased only with approval of the City's Investment Advisory Committee (IAC). Because of the Funds unique cash flow requirements, investment activity is generally restricted to investments with original maturities of 365 days or less.

Credit risk - For fiscal year end 2005, the Funds' investments were comprised of repurchase agreements collateralized by legally issued general obligations of the United States and the agencies and instrumentalities of the United States. For fiscal year end 2004, the Fund's investments in Federal Home Loan Mortgage Corporation (FHLMC) Discount Notes were rated AAA by Standard & Poor's and Aaa by Moody's Investor Services. The Fund's investments in Federal National Mortgage Association (FNMA) Discount Notes were rated AAA by Standard & Poor's and Fitch.

Concentration of credit risk - Of the Fund's total investments as of August 31, 2005, 98% was invested in repurchase agreements. Of the Fund's total investments as of August 31, 2004, 87% were invested in FHLMC and 10% were invested in FNMA.

Custodial credit risk - This is the risk that in the event of failure of the counterparty, the Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Fund's investments comply with ORS 294.035 and ORS 294.810 that lists acceptable investments that are identified below. The Fund has no outstanding investments that are exposed to custodial credit risk.

As of August 31, 2005, the Fund had the following investments and maturities:

		Investment Ma	turity (in ye	ears)	Weighted			
	Fair	 Less			Average			
Investment Type	Value	 Than 1	1	- 5	Maturity (years)			
Repurchase Agreements	\$ 14,680,855	\$ 14,680,855	\$	-	-			

## **Note 3 - Deposits and Investments (Continued)**

As of August 31, 2004, the Fund had the following investments and maturities:

				Investment Ma	turity (i	n years)	Weighted
		Fair		Less			Average
Investment Type		Value		Than 1		1 - 5	Maturity (years)
Government Securities - FHLMC & FNMA Repurchase Agreements	\$ 14,041,917 107,388			\$ 14,041,917 107,388			0.22
	\$	14,149,305	\$	14,149,305	\$	-	

## **Note 4 - Utility Plant**

Utility plant assets were as follows at August 31:

	2005	2004
Land	\$ 4,500	\$ 4,500
Hydroelectric generating plants	44,123,225	44,123,225
Total utility plant	44,127,725	44,127,725
Less accumulated depreciation	15,967,854	15,311,855
Net utility plant	\$ 28,159,871	\$ 28,815,870

#### Note 5 - Bonds Payable

On October 1, 1993, the Fund, through the City, issued \$7,980,000 in Hydroelectric Series 1993 Revenue Bonds and used \$2,195,681 of available cash to advance refund \$8,925,000 of outstanding Series B Revenue Bonds. The net proceeds were deposited in an irrevocable trust and were used to redeem the Series B Revenue Bonds on October 1, 1993.

Interest rates on the Series A and Series 1993 Bonds range from 6.1% to 7%. The trust indentures for the Bonds require the Fund to maintain certain restricted accounts including a debt service reserve account in an amount sufficient to pay the maximum annual debt service on the Series A Bonds.

The Series A Bonds are subject to early redemption on any interest payment date, in whole or in part, in inverse order of maturity.

The Series 1993 Bonds shall be subject to redemption prior to maturity, in whole or in part, at any time at par plus accrued interest.

#### **Note 5 - Bonds Payable (Continued)**

Amortization of the discount on the Revenue Bonds was approximately \$24,000 and \$28,000 for the years ended August 31, 2005 and 2004, respectively.

In November 1999, the City issued \$300,848,346 of Series C, D and E Limited Tax Revenue Bonds to finance the City's unfunded actuarial accrued pension liability (UAAL) with the Oregon Public Employees Retirement System (PERS) as of December 31, 1997. The proceeds from the PERS Bonds was used to pay \$257,917,529 for the UAAL as of December 31, 1997 and other costs including capitalized interest and costs of issuance. The Bonds had been recorded in the City's General Long-Term Debt Account Group. This debt is allocated to the general government, enterprise funds, internal service funds and fiduciary funds. The interest rates on the PERS Limited Tax Revenue Bonds range from 5.95% to 7.70%.

Future fiscal year maturities of bond principal and interest at August 31, 2005 are as follows:

		Se	ries A		Series	Series 1993			PERS Bond Allocation				Total			
	I	Principal		Interest	Principal		Interest		Principal		Interest		Principal		Interest	
2006 2007 2008 2009 2010 Thereafter	\$	1,325,000 1,400,000 1,500,000 1,600,000 1,700,000 14,775,000	\$	1,514,625 1,419,250 1,317,750 1,209,250 1,093,750 3,716,125	\$ 790,000 825,000 - -	\$	78,905 26,813 - -	\$	2,208 4,086 5,147 6,319 240,733	\$	14,955 14,955 14,795 14,497 14,119 184,548	\$	2,115,000 2,227,208 1,504,086 1,605,147 1,706,319 15,015,733	\$	1,608,485 1,461,018 1,332,545 1,223,747 1,107,869 3,900,673	
Less unamortized discounts		22,300,000 119,708		10,270,750	1,615,000		105,718		258,493		257,869		24,173,493 125,963		10,634,337	
	\$ 2	22,180,292	\$	10,270,750	\$ 1,608,745	\$	105,718	\$	258,493	\$	257,869	\$	24,047,530	\$	10,634,337	

#### **Note 6 - Power Sales Agreement**

On April 12, 1979, the City entered into a Power Sales Agreement (the Agreement) with Portland General Electric Company (the Utility) to sell 100% of the Fund's output through August 31, 2017. The Agreement requires the Utility to pay all costs related to debt service, administration, water quality testing and control, permits and licenses and insurance regardless of whether any power is generated. In addition, the Utility pays a power production payment, which is dependent on the amount of power generated and, in some years, may pay a share of the savings element which is dependent on a number of factors. Power generating output is restricted to use by the public in Multnomah and Clackamas counties. The amount payable to the City, as the power production payment, is reduced by the amount needed to reimburse the Utility for debt service paid by the Utility related to surplus construction funds used by the City. The reduction amounted to approximately \$198,000 for each of the years ended August 31, 2005 and 2004.

## **Note 6 - Power Sales Agreement (Continued)**

The Fund's Agreement with the Utility requires that the cost to the Utility for the power generated by the Fund's plant be measured against the cost of power generated by the Utility at one of its specified thermal generating plants. The Agreement specifies that to the extent the cost of power generated by the Fund's plant is less than the cost of power generated by the Utility, 50% of the cost savings is to be paid by the Utility to the Fund. There have been no such payments, as the cost of power generated by the Fund's plant has been greater than that of the Utility's designated plants on a cumulative contract basis.

The Agreement states that on expiration of the term of the Agreement, if the accumulated cost of power generated at the Fund's plant exceeds that of the accumulated cost of a like amount of power generated by the Utility, then the carrying value of the renewal and replacement assets shall be paid to the Utility to offset up to 50% of the "excess cost" incurred by the Utility to generate power at the Fund's plant. The balance of the assets, if any, shall be divided equally between the Fund and the Utility. In the event the accumulated cost of power generated at the Fund's plant exceeds that of the accumulated cost of a like amount of power generated by the Utility, and the carrying value of the renewal and replacement assets are less than 50% of the excess cost, no further amounts would be required to be paid to the Utility. At August 31, 2005, the total accumulated excess cost was \$24,509,706, 50% of this total was \$12,254,853 and the carrying value of the Renewal and Replacement assets was \$9,076,281.

### Note 7 - Pension and Deferred Compensation Plans

#### State of Oregon Public Employees Retirement System

**Overview** - All employees of the Fund, after six months of employment, are participants along with other City employees in the State of Oregon Public Employees Retirement System (PERS), an agent multiple-employer public employee retirement system. The State of Oregon PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Oregon Public Employees Retirement System, P.O. Box 23700, Tigard, Oregon 97281-3700, by calling 1-503-598-7377 or visiting their website at <a href="https://www.oregon.gov/pers">www.oregon.gov/pers</a>.

PERS benefits vest after five years of continuous service. General service employees may retire after reaching age 55. Fire and police personnel are eligible after reaching age 50. Employees with 30 years of service (25 years for fire and police personnel at age 50) receive unreduced benefits. General service employee benefits are reduced if retirement occurs prior to age 58 with less than 30 years of service. Fire and police personnel benefits are reduced if retirement occurs prior to age 55 with less than 25 years of service.

## **Note 7 - Pension and Deferred Compensation Plans (Continued)**

Retirement benefits are based on final average salary and length of service and are calculated under either a money match or a formula plus annuity computation if a greater benefit results. Fire and police personnel may purchase increased benefits that are payable between the date of retirement and age 65. PERS also provides death and disability benefits. These benefit provisions and other requirements are established by state statues.

**Funding policy** - The rate of employer contributions to PERS is determined periodically by PERS based on actuarial valuations performed at least every two years. Beginning in fiscal year 1999-2000, PERS began passing costs on to employers due to the Oregon State Legislature increasing retiree benefits in 1995 by a maximum 9.89% on benefits earned before October 1991. The impact on the City to recover the higher PERS costs would have its employer contribution rate increase from 10.48% to 17.4% of covered members' compensation. Proceeds of the 1999 Series C, D and E Bonds (the Bonds) were used to finance all of the estimated unfunded actuarial accrued liability (UAAL) of the City of Portland, Oregon with PERS as of December 31, 1997. The City elected to fund its December 31, 1997 UAAL of \$257,917,529 to receive a lower employer contribution rate of 8.56% of covered employees' salaries. This resulted in the City having an over funded Actuarial Accrued Liability of \$60,844,234 at December 31, 1999. It is the City's policy to recognize pension expenditures or expenses as currently funded.

In addition to paying PERS the City's estimated UAAL, proceeds of the Bonds were also used to pay costs related to the financing of the UAAL, including capitalized interest and costs of issuance. The full faith and credit of the City secure the Bonds. Total bonds issued for fiscal year 2000 equaled \$300,848,346. The City is not authorized to levy additional taxes to pay these obligations. The liability will be funded by various City-wide bureaus, including the Fund, based upon those bureaus' and Funds' contributions to PERS for participating employees. The debt was originally recorded in the General Long-Term Debt Accounts Group of the City. In fiscal year 2002 the debt was allocated to both general government and enterprise activities. The Hydroelectric Power Fund's share was \$258,493.

**Risk pooling and revised PERS contribution rates** - Effective January 1, 2000, the City elected to participate in the Local Government Rate Pool (LGRP). The LGRP was created by a legislative act of the State of Oregon and provided local governments the option to pool their PERS related assets and liabilities with others that elected to participate in the pool, whereby contribution rates are determined based on the overall experience of the pool versus the potentially more volatile experience of individual employers. The LGRP was expanded and replaced by the State and Local Government Rate Pool (the SLGRP). The City made the election to join this pool as of January 1, 2002.

## **Note 7 - Pension and Deferred Compensation Plans (Continued)**

In February 2005, the City was notified by the PERS actuarial firm that based on the most recent actuarial valuation (period ended December 31, 2003) the City's contribution rate would be changing. Due to higher than expected rate increases system-wide, the PERS Board has decided to phase in the rate increases in two steps. The first increase, effective July 1, 2005, will be to 8.07 percent, with the second effective July 1, 2007, expected to be 12.29 percent. The City has an over funded Actuarial Accrued Liability of \$28,240,751 at December 31, 2003.

The Fund's payroll for employees covered by PERS for the years ended August 31, 2005 and 2004 was approximately \$164,000 and \$157,000, respectively.

Annual pension cost - The net pension obligation is determined in accordance with GASB Statement No. 27. PERS sets the rate for the City, which is based on the independent actuarial study that is performed every two years. This rate establishes the annual required contribution for the City. For fiscal 2005, the City's annual pension cost of \$20,277,777 was equal to the City's required and actual contributions. The required contribution was determined as part of the independent actuarial valuation for the City at December 31, 2003 using the entry age actuarial cost method. The amortization method used is a 24-year closed group, fixed term. Significant economic assumptions used in the actuarial valuation include: (a) rate of return on the investment of present and future assets of 8% per annum compounded annually, (b) projected salary increases at 4% per year compounded annually, (c) increases due to promotions and longevity that vary by age and service, (d) pre and post-mortality life expectancies of employees, based upon several mortality tables, (e) rates of withdrawal from active service before retirement for reasons other than death, rates of disabilities, and expected retirement ages developed on the basis of actual plan experience, (f) consumer price inflation at 3% per year, and (g) a factor for unused sick leave that is used to calculate retirement benefits under the Full Formula and Formula Plus Annuity benefit calculations.

**Schedule of employer contributions** - The following supplementary information is for the City and is not separately available for the Fund:

Fiscal year	Annual Pension		Percentage of APC		
ended	Cost (APC)	Contribution	Contributed	Pension Assets	
2003	\$ 36,330,124	\$ 27,750,405	76%	\$ 226,647,534	
2004	27,390,839	18,811,120	69%	\$ 218,067,815	
2005	25,857,496	20,277,777	70%	\$ 209,488,096	

# **Note 7 - Pension and Deferred Compensation Plans (Continued)**

# **Schedule of funding progress -**

Net pension asset (obligation), end of year

Actuarial Valuation Date	Actuarial Vale of Assets	Actuarial Accrued Liability (AAL- Entry Age)	Unfunded AAL (UAAL)	Funded Ratio	Covered Pa	ıyroll	UAAL As A Percentage Of Covered Payroll
December 31,							
1999	1,344,029,254	1,283,185,019	(60,844,235)	105%	185,197	,179	-33%
2001	1,259,495,765	997,071,885	(262,423,880)	126%	198,403	3,067	-132%
2003	1,187,442,653	1,159,201,902	(28,240,751)	102%	201,036	,519	-14%
Net pension ass	sets -						ear Ended ne 30, 2005
Net pension asset (obligation), beginning of year						\$ 2	18,067,815
Annual Required Contribution					77,777)		, ,
Interest on pension asset (obligation)					15,425		
, , ,							
Adjustment to Annual Required Contribution					25,144)		
Annual Pension Cost					57,496)		
Contributions made					77,777		
Change in pension asset (obligation)							(8,579,719)
_	_						

\$ 209,488,096