

ANNUAL DISCLOSURE INFORMATION

**Pertaining to
City of Portland, Oregon**



First Lien Water System Revenue & Refunding Bonds:

\$73,440,000	2010 Series A	Dated February 11, 2010
\$82,835,000	2011 Series A	Dated March 22, 2011
\$76,510,000	2012 Series A	Dated August 2, 2012
\$84,975,000	2014 Series A	Dated December 16, 2014
\$168,525,000	2016 Series A	Dated December 15, 2016

Second Lien Water System Revenue & Refunding Bonds:

\$253,635,000	2013 Series A	Dated May 2, 2013
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February 15, 2017

MATURITY SCHEDULES FIRST LIEN BONDS:

\$73,440,000*

**First Lien Water System Revenue Bonds,
2010 Series A**

Due May 1	Principal Amount	Interest Rate	CUSIP 736754
2017	\$2,205,000	5.000%	HM7
2018	2,315,000	5.000%	HN5
2019	2,430,000	5.000%	HP0
2020	2,550,000	4.000%	HQ8
2021	2,655,000	4.000%	HR6
2022	2,760,000	4.000%	HS4
2023	2,870,000	4.000%	HT2
2024	2,985,000	4.000%	HU9
2025	3,105,000	4.000%	HV7
2026	3,230,000	4.000%	HW5
2027	3,355,000	4.000%	HX3
2028	3,490,000	4.000%	HY1
2029	3,630,000	4.000%	HZ8
2030	3,775,000	4.000%	JA1
2031	3,925,000	4.000%	JB9
	<u>\$45,280,000</u>		

\$17,410,000 4.25% Term Bonds due May 1, 2035;
CUSIP Number 736754 JC7

*Original par amount.

MATURITY SCHEDULES FIRST LIEN BONDS (Continued):

\$82,835,000*
First Lien Water System Revenue Bonds,
2011 Series A

Due May 1	Principal Amount	Interest Rate	CUSIP 736754
2017	\$2,340,000	5.000%	JJ2
2018	2,460,000	5.000%	JK9
2019	2,580,000	5.000%	JL7
2020	2,710,000	5.000%	JM5
2021	2,845,000	4.000%	JN3
2022	2,960,000	4.000%	JP8
2023	3,075,000	4.000%	JQ6
2024	3,200,000	4.000%	JR4
2025	3,330,000	4.000%	JS2
2026	3,460,000	4.000%	JT0
2027	3,600,000	4.000%	JU7
2028	3,745,000	4.000%	JV5
2029	3,895,000	4.250%	JW3
2030	4,060,000	4.500%	JX1
2031	4,240,000	4.500%	JY9
2032	4,430,000	5.000%	JZ6
2033	4,655,000	5.000%	KA9
2034	4,885,000	5.000%	KB7
2035	5,130,000	5.000%	KC5
2036	5,385,000	5.000%	KD3
	<u>\$72,985,000</u>		

*Original par amount.

MATURITY SCHEDULES FIRST LIEN BONDS (Continued):

\$76,510,000*
First Lien Water System Revenue Bonds
2012 Series A

Due	Principal	Interest	CUSIP
April 1	Amount	Rate	736754
2017	\$2,185,000	5.000%	KJ0
2018	2,295,000	4.000%	KK7
2019	2,390,000	5.000%	KL5
2020	2,510,000	5.000%	KM3
2021	2,635,000	5.000%	KN1
2022	2,765,000	3.000%	KP6
2023	2,850,000	3.000%	KQ4
2024	2,935,000	3.000%	KR2
2025	3,020,000	3.000%	KS0
2026	3,110,000	3.000%	KT8
2027	3,205,000	3.000%	KU5
2028	3,300,000	3.000%	KV3
2029	3,400,000	3.000%	KW1
2030	3,505,000	3.000%	KX9
2031	3,610,000	3.000%	KY7
2032	3,715,000	3.000%	KZ4
2033	3,825,000	3.000%	LA8
2034	3,940,000	3.250%	LB6
2035	4,070,000	3.250%	LC4
	<u>\$59,265,000</u>		

\$8,545,000 3.25% Term Bonds, due April 1, 2037
CUSIP Number 736754LD2

*Original par amount.

MATURITY SCHEDULES FIRST LIEN BONDS (Continued):

\$84,975,000*
First Lien Water System Revenue Bonds
2014 Series A

Due May 1	Principal Amount	Interest Rate	CUSIP 736754
2017	\$2,060,000	5.000%	MR0
2018	2,165,000	5.000%	MS8
2019	2,275,000	5.000%	MT6
2020	2,385,000	5.000%	MU3
2021	2,505,000	5.000%	MV1
2022	2,630,000	5.000%	MW9
2023	2,760,000	5.000%	MX7
2024	2,900,000	5.000%	MY5
2025	3,045,000	3.000%	MZ2
2026	3,135,000	3.000%	NA6
2027	3,230,000	5.000%	NB4
2028	3,390,000	4.000%	NC2
2029	3,530,000	3.000%	ND0
2030	3,635,000	4.000%	NE8
2031	3,780,000	4.000%	NF5
2032	3,930,000	4.000%	NG3
2033	4,085,000	4.000%	NH1
2034	4,250,000	4.000%	NJ7
2035	4,420,000	4.000%	NK4
2036	4,600,000	4.000%	NL2
2037	4,780,000	4.000%	NM0
2038	4,975,000	3.500%	NN8
2039	5,145,000	4.000%	NP3
	<u>\$79,610,000</u>		

*Original par amount.

MATURITY SCHEDULES FIRST LIEN BONDS (Continued):

\$168,525,000*

**First Lien Water System Revenue and Refunding Bonds
2016 Series A**

Due May 1	Principal Amount	Interest Rate	CUSIP 736754
2017	\$2,375,000	2.00%	NQ1
2018	9,305,000	5.00%	NR9
2019	10,895,000	5.00%	NS7
2020	11,435,000	5.00%	NT5
2021	12,015,000	5.00%	NU2
2022	5,135,000	5.00%	NV0
2023	5,390,000	5.00%	NW8
2024	5,665,000	5.00%	NX6
2025	5,945,000	5.00%	NY4
2026	6,240,000	5.00%	NZ1
2027	6,555,000	4.00%	PA4
2028	6,820,000	4.00%	PB2
2029	7,090,000	4.00%	PC0
2030	7,375,000	4.00%	PD8
2031	7,665,000	4.00%	PE6
2032	7,975,000	4.00%	PF3
2033	8,290,000	4.00%	PG1
2034	8,625,000	4.00%	PH9
2035	4,270,000	4.00%	PJ5
2036	4,440,000	4.00%	PK2
2037	4,620,000	4.00%	PL0
2038	4,805,000	4.00%	PM8
2039	4,995,000	4.00%	PN6
2040	5,195,000	4.00%	PP1
2041	5,405,000	4.00%	PQ9
	<u>\$168,525,000</u>		

*Original par amount.

MATURITY SCHEDULE SECOND LIEN BONDS:

\$253,635,000*
Second Lien Water System Revenue and Refunding Bonds
2013 Series A

Due Oct. 1	Principal Amount	Interest Rate	CUSIP 736754
2017	\$3,000,000	3.000%	LH3
2017	6,715,000	5.000%	MD1
2018	3,000,000	3.000%	LJ9
2018	6,000,000	5.000%	ME9
2019	3,000,000	3.000%	LK6
2019	6,410,000	5.000%	MF6
2020	3,000,000	4.000%	LL4
2020	6,840,000	5.000%	MG4
2021	3,000,000	4.000%	LM2
2021	8,450,000	5.000%	MH2
2022	12,030,000	5.000%	MJ8
2023	3,000,000	4.000%	LN0
2023	9,635,000	5.000%	MK5
2024	8,945,000	5.000%	LP5
2025	9,405,000	5.000%	LQ3
2026	9,885,000	5.000%	LR1
2027	10,395,000	5.000%	LS9
2028	10,815,000	3.000%	LT7
2029	11,200,000	4.000%	LU4
2030	11,650,000	4.000%	LV2
2031	10,145,000	4.000%	ML3
2031	2,000,000	5.000%	LW0
2032	5,925,000	4.000%	MM1
2032	2,000,000	5.000%	LX8
2033	5,205,000	4.000%	MN9
2033	3,070,000	5.000%	LY6
	<u>\$174,720,000</u>		

\$36,685,000 4.00% 2013 Series A Term Bonds due October 1, 2037;
CUSIP Number 736754 LZ3

*Original par amount.

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ANNUAL DISCLOSURE INFORMATION

Pertaining to:

FIRST LIEN BONDS:

\$73,440,000

**First Lien Water System Revenue and Refunding Bonds
2010 Series A – Dated February 11, 2010**

\$82,835,000

**First Lien Water System Revenue Bonds
2011 Series A – Dated March 22, 2011**

\$76,510,000

**First Lien Water System Revenue Bonds
2012 Series A – Dated August 2, 2012**

\$84,975,000

**First Lien Water System Revenue Bonds
2014 Series A – Dated December 16, 2014**

\$168,525,000

**First Lien Water System Revenue and Refunding Bonds
2016 Series A – Dated December 15, 2016**

SECOND LIEN BONDS:

\$253,635,000

**Second Lien Water System Revenue Bonds
2013 Series A – Dated May 2, 2013**

Information Updated as of February 15, 2017

WATER SYSTEM FINANCIAL AND OPERATING INFORMATION

OVERVIEW

This section provides financial and operating information specifically related to the Water System.

FUND ACCOUNTING SYSTEM

The Bureau's financial reporting system is organized into three separate funds. The funds and their financial reporting purpose are described as follows:

Water Operating Fund. This fund serves as the operating fund of the Bureau and, with the exception of debt service, all expenditures are made from this fund for operation, maintenance and capital assets. Receipts from the sale of water are the primary source of revenue for the Water Operating Fund. The cash flow in this fund determines the need for rate increases. The Rate Stabilization Account is within the Operating Fund.

Water Construction Fund. By City Charter stipulation, this fund is the recipient of proceeds from bond sales and SDCs. Other sources of revenue include reimbursements for capital expenditures, such as main extensions and service installations and sale of assets. Also, a portion of the water sales revenues is transferred to this fund to finance routine system repair and replacement. The Water Construction Fund reimburses the Water Operating Fund for capital asset requirements including capitalized overhead, capitalized interest, and the cost of issuing bonds.

Water Bond Sinking Fund. This fund provides for the repayment of bonded debt and interest, and maintains the water revenue bond debt service reserves for various issues. The source of revenue for this fund is a transfer from the Water Operating Fund and interest earnings.

These three funds enable the Bureau to segregate resources for specific uses and ensure that reserves are not used to supplement daily operating needs. Maintenance of the fiscal integrity of each fund is a key objective of the Bureau's financial planning and analysis efforts. The Bureau's fund structure provides for the accounting and control of expenditures and differs from the account structure described in the Master First Lien Water System Revenue Bond Declaration (the "Master First Lien Bond Declaration") and the Master Second Lien Water System Revenue Bond Declaration (the "Master Second Lien Bond Declaration"). The accounts described in the Master First Lien Bond Declaration and the Master Second Lien Bond Declaration have been established to identify priority claims on Water System revenues and are accounted for separately.

HISTORICAL OPERATING RESULTS

The Bureau has collected Water System revenues sufficient to provide for all operating expenses, to pay debt service, and to meet debt service coverage requirements on its outstanding Water System revenue bonds. In addition to meeting these requirements, the Bureau provides cash financing of its capital program by setting current rates and charges at a level sufficient to meet planned debt service coverage targets.

The Bureau continues to maintain a target minimum debt service coverage ratio of 1.90 times on First Lien Bonds (higher than the 1.25 times required by the Master First Lien Bond Ordinance). In addition, the Bureau maintains a minimum debt service coverage ratio target for combined first and second lien bond debt service of 1.75 times using Stabilized Net Revenues as defined in the Master Second Lien Bond Declaration. (The Master Second Lien Bond Declaration requires 1.10 times debt service coverage using Stabilized Net Revenues.)

Historical operating results of the Bureau's financial operations are shown in the following table. Between FY 2011-12 and FY 2015-16, Gross Revenues grew at a compound annual rate of 7.9 percent. Gross revenues increased overall primarily due to the rate change for water sales, increased delinquency receipts, and an increase in capital charges due to an increase in building and permitting activity. Gross revenues increased in FY 2014-15 and FY 2015-16 due to increased water demand. Operating Expenses during the five-year period averaged \$72.1 million.

Over the last five years, Net Revenues have provided from 2.39 times to 3.36 times debt service coverage on First Lien Bonds. Debt service coverage decreased in FY 2015-16 due to increased water sales and capital revenue, offset with higher operating expenses and debt service. The Bureau contributed \$3.0 million to the Rate Stabilization Account in FY 2015-16. Stabilized Net Revenues provided 2.01 times coverage on the combined annual debt service for both First and Second Lien Bonds in FY

2015-16. Audited statements of revenues, expenses, and changes in fund net position, the statement of net position, and the statement of cash flows for the Water Fund are presented in the Appendix.

Table 1
CITY OF PORTLAND, OREGON
Water Bureau
Historical Operating Results

Fiscal Year Ending June 30	2011-12	2012-13	2013-14	2014-15	2015-16
<i>(in thousands of dollars)</i>					
GROSS REVENUES (1)					
Operating Revenues	\$124,114	\$135,649	\$135,616	\$147,558	\$161,849
Interest Earnings	719	744	1,021	1,020	1,371
Capital Charges	7,523	12,263	10,860	13,950	15,980
Total Gross Revenues	<u>\$132,356</u>	<u>\$148,656</u>	<u>\$147,497</u>	<u>\$162,528</u>	<u>\$179,200</u>
OPERATING EXPENSES (2) (3)					
Operating Expenses	<u>\$67,670</u>	<u>\$66,199</u>	<u>\$65,035</u>	<u>\$67,951</u>	<u>\$93,514</u>
NET REVENUES	<u>\$64,686</u>	<u>\$82,457</u>	<u>\$82,462</u>	<u>\$94,577</u>	<u>\$85,686</u>
DEBT SERVICE					
First Lien Bonds (4)	\$27,026	\$31,511	\$26,415	\$28,151	\$28,804
Second Lien Bonds	\$4,550	\$4,550	\$19,313	\$22,054	22,050
Total	<u>\$31,576</u>	<u>\$36,061</u>	<u>\$45,728</u>	<u>\$50,205</u>	<u>\$50,854</u>
DEBT SERVICE COVERAGE (x)					
First Lien Bonds	2.39	2.62	3.12	3.36	2.97
First and Second Lien Bonds	2.05	2.29	1.80	1.88	2.07
All Debt	<u>2.05</u>	<u>2.29</u>	<u>1.80</u>	<u>1.88</u>	<u>2.07</u>
COVERAGE BASED ON STABILIZED NET REVENUES (5)					
NET REVENUES (6)	\$64,686	\$82,457	\$82,462	\$94,577	\$105,450
Less: Transfers to Rate Stabilization Account	(1,560)	(12,600)	0	(2,500)	(3,000)
Plus: Transfers from Rate Stabilization Account	0	0	428	0	0
STABILIZED NET REVENUES	<u>\$63,126</u>	<u>\$69,857</u>	<u>\$82,890</u>	<u>\$92,077</u>	<u>\$102,450</u>
DEBT SERVICE COVERAGE (x)					
First and Second Lien Bonds	2.00	1.94	1.81	1.83	2.01

Notes:

- (1) As defined in the Master First Lien Bond Declaration. Does not reflect adjustments to Second Lien Bond calculations as defined in the Master Second Lien Bond Declaration.
- (2) Operating expenses excludes a negative expense of \$12.8 million for FY 2014-15 and includes an expense of \$19.8 million for FY 2015-16 related to GASB 68. That treatment of these non-cash items results in the most conservative debt coverage calculation for both fiscal years. Effective with the issuance of the First Lien Water System Revenue and Refunding Bonds, 2016 Series A Bonds and FY 2016-17, these non-cash GASB-related expenses will be excluded from the Operating Expenses in calculating Net Revenues and debt service coverage. See definition of Operating Expenses in Master First Lien Bond Declaration.
- (3) Operating expenses include the Bureau's share of debt service for the City's pension obligation bonds and Post-Employment Retirement Benefits. See "CITY OPERATING AND FINANCIAL INFORMATION—PENSION PLANS—Pension Obligation Bonds" and "—OTHER POST-EMPLOYMENT BENEFITS ("OPEB")" in Appendix D.
- (4) The First Lien Bond debt service coverage ratio for FY 2015-16 would be 3.66 after adjusting for springing amendments incorporated in the Master First Lien Bond Declaration.
- (5) The Second Lien Rate Stabilization Account was created with the issuance of Second Lien Bonds in 2006.
- (6) In FY 2015-16, Stabilized Net Revenues excludes \$19.8 million of expenses related to GASB 68 reporting requirements, as provided in the Master Second Lien Water System Bond Declaration.

Source: City of Portland. Totals may not add due to rounding.

WATER SYSTEM CUSTOMERS, DEMAND, RATES AND BILLING

Overview

The Bureau has both retail and wholesale water customers. Retail use constitutes about 65 percent of all water use in a given year; wholesale water use is the remaining 35 percent.

Retail Water Customers

Approximately 41 percent of all of the Bureau's retail water sales are to single-family residential customers; 17 percent are to multi-family residential customers; and 42 percent are to commercial, industrial, and institutions. As of fiscal year ending June 30, 2016, residential accounts make up the majority of the approximately 184,000 water accounts. Commercial accounts total approximately 19,700 (including 3,600 fire line) water services. In addition to water service accounts, there are more than 6,000 sewer-only accounts, most of which are billed bi-monthly.

Table 2
CITY OF PORTLAND, OREGON
Water Bureau
Historical Number of Accounts

Fiscal Year Ending June 30	2011-12	2012-13	2013-14	2014-15	2015-16
TOTAL RETAIL CUSTOMERS					
(1)	180,600	182,950	183,175	183,300	184,300
WHOLESALE CUSTOMERS					
Tualatin Valley Water District	58,598	59,110	59,833	60,550	61,684
Rockwood Water PUD	13,234	13,257	13,221	13,417	13,420
Gresham, City of	16,866	18,617	16,668	16,789	16,691
Tualatin, City of	6,650	6,753	6,689	6,384	6,872
Tigard, City of (4)	18,265	18,496	18,678	18,535	18,821
West Slope Water District	3,236	3,331	3,308	3,310	3,200
Raleigh Water District	1,006	1,006	1,008	1,008	1,004
Palatine Hill Water District	604	607	607	603	598
City of Sandy (2)	-	-	3,508	3,608	3,703
Lake Grove Water District	1,270	1,211	1,218	1,327	1,267
Valley View Water District	379	381	381	383	384
Pleasant Home Water District	545	570	545	546	550
Lusted Water District	410	407	409	410	409
Burlington Water District	118	113	113	113	113
Six private water companies (3)	213	213	209	207	207
Total Wholesale Customers	121,394	124,072	126,395	127,190	128,923
Grand Total	301,994	307,022	309,570	310,490	313,223

Notes:

- (1) In FY 2011-12, the number of retail customers was changed to number of accounts. In the prior years, the number of services or meters was reported.
- (2) The City signed a contract with the City of Sandy for water delivery beginning in FY 2013-14.
- (3) Six private water companies include GNR Corporation, Green Valley Water Company, Hideaway Hills Water Company, Lorna Portland Water LLC, Skyview Acres Water Company, and Two Rivers Water Association.
- (4) The City of Tigard Regional Water Sales Agreement terminated on June 30, 2016.

Source: City of Portland. Totals may not add due to rounding.

Table 3 shows the top ten retail users and revenues for FY 2015-16.

Table 3
CITY OF PORTLAND, OREGON
Water Bureau
Major Retail Users for Fiscal Year 2015-16

Retail Commercial Users	Annual Usage (ccf)⁽¹⁾	% of Annual Usage (ccf)⁽¹⁾ to Total Retail Customers	Revenue
Siltronic Corp.	480,121	1.9%	\$1,883,081
City of Portland, Bureau of Parks	385,452	1.5	1,397,468
Oregon Health and Sciences University	283,654	1.1	1,141,933
Darigold, Inc.	172,456	0.7	678,790
Port of Portland	169,847	0.7	720,219
Precision Castparts	168,961	0.7	670,081
Evrax, Inc.	136,052	0.5	537,025
Portland Public Schools	127,805	0.5	626,786
Portland State University	120,402	0.5	523,717
Ajinomoto Frozen Foods USA, Inc.	105,288	0.4	419,292

Notes:

(1) "CCF" means centum cubic feet or 100 cubic feet.

Source: City of Portland.

Wholesale Water Customers

The Bureau currently provides water on a wholesale contract basis to 19 water purveyors, which include cities, water districts, and private water companies. Annual water sales to wholesale customers account for about nine to 12 percent of annual water sale revenues. Wholesale customers pay based on their use of the system in accordance with contract terms.

Between 2006 and 2009, the City entered into new wholesale contracts with 14 cities and public water districts. These 14 contracts constitute more than 99 percent of the Bureau's wholesale water sales. Of the 14 wholesale contracts, five customers have 10-year contracts and nine customers have 20-year contracts. The remaining wholesale customers are six small private water companies, with contracts that renew every five years.

A significant feature of the wholesale agreements is the guaranteed supply and payment provisions. In exchange for the Bureau's guarantee of a predetermined water supply to each wholesale customer, the wholesale customers will pay for those annual quantities on a take-or-pay basis during the contract period. This provision means that the Bureau's wholesale revenues are considerably more stable and not subject to adverse demand fluctuations due to weather, economic downturns, or other factors for the duration of the contracts. The only variation in revenues due to demand would occur from mutually agreed-upon sales beyond the take-or-pay quantities or from changes in the ratio of peak-to-average demands of the users. The City currently has ample water supply to meet all obligations to deliver water as required by wholesale agreements and to supply its retail customers.

Wholesale customers must give five years' notice of non-renewal. Either party may give a written notice of non-renewal and can do so at any time during the last five years of their respective contracts. If such a notice is issued, the contract will terminate on the next June 30 at least five years but not more than six years from the date of the notice. If neither party gives notice of non-renewal during the last five years of the respective contracts, the contract will continue for another ten years. If the contracts are renewed, then the contracts shall also be repeatedly renewed for ten year intervals, and every ten years thereafter, unless one of the parties gives a notice of non-renewal during the second five years of each ten-year renewal period. The City of Tigard was the only wholesale customer with a 10-year agreement that provided a non-renewal notice in FY 2010-11, therefore,

their agreement terminated on June 30, 2016. The remaining four wholesale customers with 10-year agreement will continue through June 30, 2026.

The 20- and 10-year agreements are virtually identical except that the 10-year agreement customers pay a higher rate of return to the City in exchange for the ability to elect not to renew their contracts at an earlier date. Tualatin Valley Water District (TVWD) is partnering with the City of Hillsboro to develop an alternative source of supply from the Willamette River. But with the renewal of their agreement, the west-side wholesale customers will continue to purchase water from the City for at least another 10 years. When the alternative source of supply is developed, wholesale customers may opt to utilize the new source of supply and reduce or even eliminate purchases from the City. However, TVWD has indicated that even after development of their alternative source of supply, it may continue to purchase water from the City, albeit at reduced quantities.

The amount of revenue to be generated from wholesale customers under these contracts is guaranteed to be about \$17.2 million in FY 2016-17, based on the take-or-pay provisions in the contracts and the guaranteed water quantities requested by each wholesale customer. Table 4 shows guaranteed purchase quantities, percent of sales, rates, and guaranteed revenues from each wholesale customer for FY 2016-17.

Table 4
CITY OF PORTLAND, OREGON
Water Bureau
Purchase Quantities and Guaranteed Revenues for Wholesale Customers, FY 2016-17

Wholesale Customer	Earliest Date for Contract Termination	FY 2016-17 Guaranteed Purchase Quantities (million ccf)	FY 2016-17 Rate (1)	Guaranteed Revenue	% of Total Wholesale Sales (\$)
Tualatin Valley Water District	6/30/2026	6.4	\$1.139	\$7,314,268	42%
Rockwood Water PUD	6/30/2026	3.8	\$0.708	\$2,694,754	16%
Gresham, City of	6/30/2026	3.7	\$0.700	\$2,561,832	15%
Tualatin, City of	6/30/2026	2.1	\$1.005	\$2,157,794	13%
West Slope Water District	6/30/2026	0.7	\$1.405	\$959,833	6%
Palatine Hill Water District	6/30/2027	0.2	\$1.978	\$415,036	2%
Raleigh Water District	6/30/2026	0.3	\$0.911	\$311,177	2%
Lake Grove Water District	6/30/2026	0.1	\$1.800	\$263,503	2%
Valley View Water District	6/30/2026	0.1	\$2.040	\$161,264	1%
Sandy, City of	6/30/2028	0.2	\$0.582	\$141,999	<1%
Pleasant Home Water District	6/30/2026	0.1	\$1.027	\$100,229	<1%
Lusted Water District	6/30/2026	0.1	\$1.085	\$95,300	<1%
Burlington Water District	6/30/2026	< 0.1	\$1.337	\$35,883	<1%
Six private water companies (2)	6/30/2021	< 0.1	\$0.700	\$23,910	<1%
TOTAL		18.0		\$17,236,782	100%

Notes:

- (1) Wholesale rates are calculated using methodologies that differ from inside-city retail rates, and generally do not include distribution system costs.
- (2) Six private water companies include GNR Corporation, Green Valley Water Company, Hideaway Hills Water Company, Lorna Portland Water LLC, Skyview Acres Water Company, and Two Rivers Water Association all signed a 5-year contract beginning 7/1/2016 with a renewal option for another 5 years.

Source: City of Portland. Totals may not add due to rounding.

Retail and Wholesale Demand

The number of retail customer accounts and demand has remained about the same, and retail consumption has averaged 25.5 million ccf. See Table 5. The Bureau has aligned its annual demand projections within this historical trend.

Wholesale water demand is based on guaranteed water quantities requested by each customer. The agreement with the City of Tigard terminated effective June 30, 2016. The financial forecast for FY 2016-17 includes this reduction in wholesale revenues.

Table 5
CITY OF PORTLAND, OREGON
Water Bureau
Historical Consumption (ccf)

Fiscal Year Ending June 30	2011-12	2012-13	2013-14	2014-15	2015-16
TOTAL RETAIL CUSTOMERS	25,400,000	25,600,000	24,800,000	25,700,000	25,900,000
WHOLESALE CUSTOMERS					
Tualatin Valley Water District	6,536,389	6,497,057	6,445,029	6,694,702	7,412,974
Rockwood Water PUD	2,993,525	3,087,085	3,061,865	3,040,125	2,987,030
Gresham, City of	2,888,362	3,013,120	2,793,032	3,018,577	2,973,719
Tualatin, City of	2,493,131	2,136,013	2,067,263	2,275,654	2,114,692
Tigard, City of	2,383,738	2,451,090	2,311,166	2,514,233	2,093,844
West Slope Water District	506,309	506,227	518,699	566,461	588,420
Raleigh Water District	237,637	256,907	249,632	272,749	295,775
City of Sandy (1)	--	--	36,688	229,487	231,035
Palatine Hill Water District	142,337	167,696	151,342	183,588	188,578
Lake Grove Water District	146,325	190,535	172,470	176,825	143,140
Pleasant Home Water District	66,842	68,298	68,735	78,530	79,245
Lusted Water District	63,103	66,615	65,413	72,134	78,519
Valley View Water District	56,390	55,755	59,212	67,399	73,287
Burlington Water District	20,306	20,968	19,956	14,780	16,156
Six private water companies (2)	24,388	27,655	25,456	15,707	18,672
Total Wholesale Customers	18,558,782	18,545,021	18,045,958	19,220,951	19,295,086
Grand Total	43,958,782	44,145,021	42,845,958	44,920,951	45,195,086

Note:

- (1) The City signed a contract with the City of Sandy for water delivery beginning in FY 2013-14.
- (2) Six private water companies include GNR Corporation, Green Valley Water Company, Hideaway Hills Water Company, Lorna Portland Water LLC, Skyview Acres Water Company, and Two Rivers Water Association. In FY 2014-15, Skyview Acres Water Company purchased water from City of Sandy.

Source: City of Portland. Totals may not add due to rounding.

Rates and Rate Setting

Section 11-105 of the City Charter authorizes the City Council to fix fees and charges for connection to and use of the water system. Water user fees and connection charges are formally reviewed every year by the Bureau. Rates required to support proposed activities for the next year are submitted by the Bureau Administrator to the City Council for review and approval.

Rates and charges for water services are established annually based, in part, upon cost of service principles and methodologies recommended by the American Water Works Association (the “AWWA”). The process used by the Bureau follows the Commodity Demand method promulgated by the AWWA. Under this approach using a rate model developed for the Bureau by Raftelis Financial Consultants, Inc. in 2006, the Water System costs are allocated to customers based on their average and peak water demand characteristics and use of the system.

Under the wholesale water sales agreements, wholesale rates are determined according to a complex set of variables and methodologies. Each wholesale customer’s rate is determined based on some variables that are specific to that customer, as well as some variables that apply to all the wholesale customers. Each wholesale customer has an annual guaranteed purchase quantity (i.e., “take-or-pay” quantity) that equals or may exceed the prior year’s guaranteed quantity, but may not be less than the prior quantity without permission of the Bureau. Each customer also selects its seasonal and maximum-day peak-demand quantities. Costs are allocated to each wholesale customer based on these various demand amounts and on the specific Water System assets that the respective wholesale customers use. Other variables impacting all wholesale customers are the Bureau’s budget and an index of municipal bond rates. The rates are then calculated for each wholesale customer on an annual basis.

Retail rates are then established based on the residual financial requirements of the Water System.

The Bureau received approval from the State of Oregon Water Resources Department in 2010 for the City’s Water Management and Conservation Plan (the “WMCP”). The WMCP final order states that the Bureau will perform a comprehensive study of conservation rate structure options within the next five years and determine whether a change in rate structure is desirable or necessary. The Bureau completed a conservation rate structure study in June 2013. The study results indicated that changes in Portland’s water rate structure were unlikely to produce significant additional reductions in water use by Portland customers. Based on the study results, the City does not plan to change its water rate structure at this time. The City submitted to the Oregon Water Resources Department a 5-year progress report as required under OAR 086-0120(4) by May 25, 2015.

Tables 6 and 7 summarize the Bureau’s historical rates and water monthly bills for various customers as well as a comparison of residential monthly water bills for various systems within the State of Oregon and the nation.

Table 6
CITY OF PORTLAND, OREGON
Water Bureau
Historical Water Rates

Fiscal Year Ending June 30	2011-12	2012-13	2013-14	2014-15	2015-16
WATER USAGE RATES					
Retail Volume Rate (per ccf) (1)	\$3.086	\$3.321	\$3.441	\$3.682	\$3.940
BASE CHARGE (Monthly Rate)(2)					
Quarterly Read Customer	\$9.33	\$10.04	\$10.40	\$11.13	\$11.91
Monthly Read Customer	\$27.99	\$30.12	\$31.21	\$33.40	\$35.74
MONTHLY WATER BILLS (based on usage indicated below)					
Residential (5 ccf) (3)	\$24.76	\$26.65	\$27.61	\$29.54	\$31.61
Medium Commercial (100 ccf) (3)	\$336.59	\$362.22	\$375.31	\$401.60	\$429.74
Large Commercial (20,000 ccf) (3)	\$61,748	\$66,450	\$68,851	\$73,673	\$78,836
Low-Income Residential (5 ccf) (4)	\$12.38	\$13.33	\$13.80	\$14.77	\$15.80

Notes:

- (1) Applies to substantially all retail customers.
- (2) The base charge is a fixed amount per bill; customers billed quarterly pay the same fixed charge as customers billed monthly.
- (3) Residential customers are charged the Quarterly Read Customer Base Charge. Commercial customers are charged the Monthly Read Customer Base Charge.
- (4) The low income discount is 50% of a 5 ccf bill.

Source: City of Portland.

Table 7
CITY OF PORTLAND, OREGON
Water Bureau
Comparison of Residential Monthly Water Bills

<u>WATER UTILITY (Effective Date)</u>	Residential Monthly Bill For 5 ccf	Residential Monthly Bill For 10 ccf
Local:		
Rockwood Water PUD (2016)	\$19.23	\$30.73
Tualatin, City of (2016)	21.20	34.75
Milwaukie, City of (2016)	24.15	40.90
Beaverton, City of (2015)	27.85	42.70
Tualatin Valley Water District (2015)	28.48	46.23
Gresham, City of (2016)	32.97	44.62
PORTLAND, CITY OF (2016) (1)	33.83	54.91
West Slope Water District (2014)	35.62	57.17
Lake Oswego, City of (2016)	39.78	55.54
Tigard, City of (2016)	43.92	67.53
National:		
Charlotte (2016)		30.53
Cincinnati (2016)		30.99
Denver (2016)		34.79
Sacramento (unmetered) (2016)		50.30
Kansas City (2013)		56.42
Seattle (winter) (2016)		64.75

Notes:

- (1) Calculations are based on rates in effect as noted, and the City's rates are effective July 1, 2016, through June 30, 2017.

Source: City of Portland, Portland Water Bureau.

System Development Charges

A System Development Charge (“SDC”) is levied by the Bureau for each new water service connected to the Water System inside the City boundaries. The Bureau’s SDC is in accordance with ORS 223.297-314, and is a reimbursement fee based on the estimated replacement cost of existing water facilities, less depreciation. The amount charged is dependent on the size of the service with larger services paying a greater amount based on the capacity of the meter. Services dedicated to fire flow and temporary construction services do not pay an SDC. FY 2015-16 SDC revenues were \$4.6 million.

Table 8
CITY OF PORTLAND, OREGON
Water Bureau
FY 2016-17 SDC Charge by Meter/Service Size

<u>Size of Meter/Service</u>	<u>Charge</u>
5/8”	\$2,400
3/4”	3,599
1”	5,999
1-1/2”	11,998
2”	19,197
3”	35,994
4”	59,990
6”	119,980
8”	191,967
10”	345,061

Source: City of Portland.

Beginning with the FY 1999-00 rate ordinance, City Council approved an Affordable Housing SDC Fee Waiver. For any new qualified residential construction that meets certain affordability requirements, the entire SDC can be waived for a 5/8” metered service. If a 3/4” metered service is requested, only the SDC dollar amount for the 5/8” metered service is waived. Multi-family housing SDC waivers are also available if certain affordability requirements are met. FY 2015-16 fee waivers (including accessory dwelling units waivers) totaled \$912,912. Loss of these revenues is made up through general water retail rates and charges. City Council extended the suspension of system development charges for construction of accessory dwelling units or the conversion of structures to accessory dwelling units until July 31, 2018. FY 2015-16 accessory dwelling unit SDC waivers were \$702,876.

Billings and Collections

The Bureau provides billing and collection for water, sewer, and stormwater services. The City uses a Cayenta Utilities billing system, purchased in April 2006, to serve the Bureau and the City’s Bureau of Environmental Services. The City’s Bureau of Revenue and Financial Services operates the billing system with costs paid by the Bureau. Billing for most retail water customers (about 177,400) is on a quarterly cycle. A monthly statement option is available for qualified customers billed on a quarterly basis. Currently, more than 22,000 customers participate in the monthly statement option. The Water Bureau is in the process of expanding the monthly statement program. In addition, more than 7,500 large retail commercial accounts, multi-family users, and wholesale purveyors are billed on a monthly basis.

A financial assistance program for water, sewer, and stormwater services is available to retail single-family residential in-city customers with gross monthly household incomes at or below 60 percent of the average State of Oregon median family income. For FY 2016-17, assistance included a flat quarterly bill discount for water customers of \$50.70, crisis assistance vouchers (maximum of \$150 per year, including \$75 for water and \$75 for sewer), in-home plumbing repair assistance for owner-occupied properties up to \$2,800, and free conservation devices. In addition, a Utility Safety Net Program is available to ratepayers as a last resort to prevent shutoff of service should they experience a significant change in household income due to employment, medical, or other emergencies.

Most water bills are collected with the payment for sewer and stormwater service. When a bill for water, sewer, or stormwater service becomes delinquent (21 days after billing) a reminder notice is sent on day 35. Additional notices are sent during an eight-week period. After eight weeks, services are terminated if the bill has not been paid. If the customer is still in arrears at the termination date, but is in contact with the Bureau, the City may set up special payment arrangements. Setting up payment arrangements rather than shutting off water service may be in the best interest of both the City and the customer to continue

water service. In recent years, a number of efficiencies have been added to the Bureau's billing and collection system, including the ability for customers to make payments electronically and over the phone through an automated system.

Due to heightened Payment Card Industry requirements, Auto Pay functionality, which allows customers to establish automatic recurring payments online, was suspended as of September 30, 2015. Similarly, the ability to utilize a 24/7 interactive voice response payment channel was unavailable. While this functionality impacted customer convenience, it did not impact collection of water sales revenues. By October 2016, the Water Bureau restored Auto Pay functionality and is continuing to provide enhanced customer convenience features.

LONG TERM 2 ENHANCED SURFACE WATER TREATMENT VARIANCE

The City was granted a treatment variance by Oregon Health Authority ("OHA") to the treatment requirements of the Long Term 2 Enhanced Surface Water Treatment ("LT2") Rule for 10 years beginning April 1, 2012. There are a set of conditions that the City is required to meet as part of maintaining the treatment variance. The conditions include ongoing monitoring of the Bull Run source water for *Cryptosporidium*.

Since January 2017, *Cryptosporidium* has been detected in drinking water from the Bull Run watershed in nine samples. These are the first detections of *Cryptosporidium* since the treatment variance went into effect.

In compliance with the conditions of the variance, the Bureau increased its monitoring in the Bull Run Watershed and plans to continue for at least a year. Public health officials do not expect any health impacts for the general population from the detection of low amounts of *Cryptosporidium*. In consideration of potential future detections of *Cryptosporidium*, on February 13, 2017, the Bureau voluntarily stopped using the Bull Run source and activated its secondary source, the Columbia South Shore Well Field. The Water System continues to be in full compliance with all state and federal regulations.

The Bureau will continue to monitor the Bull Run for *Cryptosporidium*. These results along with continued coordination with health officials will be used to decide when to return to the Bull Run as Portland's drinking water source.

If OHA were to revoke the City's treatment variance, the City would enter into a compliance schedule with OHA to comply with the treatment requirements for *Cryptosporidium*. The cost impacts of a treatment option, if treatment were required, are not currently known.

OTHER FINANCIAL INFORMATION

Outstanding Water System Debt

As of February 15, 2017, the City had a total of \$663,025,000 of Water System revenue bonds outstanding, as shown in the following table.

Table 9
CITY OF PORTLAND, OREGON
Water Bureau
Outstanding Water System Revenue Bonds
as of February 15, 2017

Issue	Dated	Final Maturity	Original Par Amount	Amount Outstanding
First Lien Water System Revenue Bonds				
2010 Series A	02/11/10	05/01/35	\$73,440,000	\$62,690,000
2011 Series A	03/22/11	05/01/36	82,835,000	72,985,000
2012 Series A	08/02/12	04/01/37	76,510,000	67,810,000
2014 Series A	12/16/14	05/01/39	84,975,000	79,610,000
2016 Series A	12/15/16	04/01/41	168,525,000	168,525,000
<i>Subtotal</i>			<u>\$486,285,000</u>	<u>\$451,620,000</u>
Second Lien Water System Revenue Bonds				
2013 Series A	05/02/13	10/01/37	\$253,635,000	\$211,405,000
<i>TOTAL</i>			<u>\$739,920,000</u>	<u>\$663,025,000</u>

Source: City of Portland.

Debt Service Requirements

The following table represents the Bureau's annual debt service requirements on First Lien and Second Lien Bonds.

Table 10
CITY OF PORTLAND, OREGON
Water Bureau
Annual Debt Service Requirements (1)

Fiscal Year	Outstanding	Outstanding	Total
Ending	First Lien Bonds	Second Lien Bonds	Debt Service
30-Jun			
2017	\$34,871,663	\$18,772,475	\$53,644,138
2018	36,988,325	18,777,975	55,766,300
2019	38,114,275	17,655,100	55,769,375
2020	38,105,775	17,664,850	55,770,625
2021	38,116,775	17,658,600	55,775,375
2022	30,634,025	18,766,350	49,400,375
2023	30,629,025	18,774,350	49,403,375
2024	30,638,225	18,777,725	49,415,950
2025	30,634,525	14,563,225	45,197,750
2026	30,627,925	14,564,475	45,192,400
2027	30,630,975	14,562,225	45,193,200
2028	30,632,925	14,565,225	45,198,150
2029	30,636,125	14,563,125	45,199,250
2030	30,638,888	14,561,900	45,200,788
2031	30,629,638	14,554,900	45,184,538
2032	30,630,738	14,564,000	45,194,738
2033	30,627,975	9,922,600	40,550,575
2034	30,629,425	9,923,250	40,552,675
2035	25,928,425	9,924,800	35,853,225
2036	21,110,488	9,922,600	31,033,088
2037	15,452,975	9,921,100	25,374,075
2038	10,975,925	9,924,600	20,900,525
2039	10,969,600	-	10,969,600
2040	5,619,000	-	5,619,000
2041	5,621,200	-	5,621,200
TOTAL	\$680,094,840	\$322,885,450	\$1,002,980,290

Notes:

(1) Totals may not foot due to rounding.

Source: City of Portland.

DEBT SERVICE RESERVE ACCOUNTS AND RESERVE CREDIT FACILITIES

First Lien Bonds

Each subaccount within the Revenue Bond Reserve Account for First Lien Water Revenue Bonds that were issued before September 1, 2016, is fully funded at the Reserve Requirement with cash as shown in the table below. The Reserve Requirement for these Series of First Lien Bonds is defined as the Tax Maximum for that Series. The City has elected not to create a subaccount in the Revenue Bond Reserve Account to secure the First Lien Water System Revenue and Refunding Bonds, 2016 Series A.

Table 11
CITY OF PORTLAND, OREGON
Reserve Subaccounts for First Lien Bonds (1)

Series	Date of Issue	Maturity Date	Cash Funded Reserve Amount
2010 Series A	02/11/10	05/01/35	\$4,826,425
2011 Series B	03/22/11	05/01/36	\$5,659,388
2012 Series A	08/02/12	04/01/37	\$4,482,938
2014 Series A	12/16/14	05/01/39	\$5,574,175

Notes:

(1) As of February 15, 2017.

Source: City of Portland.

Second Lien Bonds

The City has created the First Subaccount in the Second Lien Bond Reserve Account, which secures the Second Lien Water System Revenue and Refunding Bonds, 2013 Series A (the “2013 Series A Bonds”) and has funded the First Subaccount with cash. The First Subaccount contains an amount equal to the First Subaccount Reserve Requirement, which is equal to one-half of the maximum annual debt service on the 2013 Series A Bonds, or \$11,027,175.

CITY FINANCIAL AND OPERATING INFORMATION

BASIS OF ACCOUNTING

The governmental fund types are reported using the current financial resources measurement focus and the modified accrual basis of accounting. The economic resources measurement focus and the accrual basis of accounting is used for all proprietary fund and fiduciary fund financial statements. The City's accounting practices conform to Generally Accepted Accounting Principles (GAAP) as interpreted by the Governmental Accounting Standards Board (the "GASB"). The Tax Increment Fund is a governmental fund of the City.

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 2015-16. A complete copy of the City's FY 2015-16 audit is available on the Electronic Municipal Market Access (EMMA) system for municipal securities disclosure established by the MSRB and accessible at <http://emma.msrb.org>. Excerpts of the City's audited financial statements for the Tax Increment Fund on a GAAP basis are found in Appendix A.

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 GAAP 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, in January 2014, the City Council approved a five-year contract with the Citizens' Utility Board of Oregon (the "CUB"), an independent consumer advocacy nonprofit organization, to provide input regarding the City's water and sewer bureaus on behalf of residential customers. The CUB will provide recommendations to the City Council on capital spending, rates, and customer service issues. The CUB participated in the process for preparing the FY 2015-16 budgets of the Water and Environmental Services bureaus including reviewing documents and providing testimony at City Council rate hearings. On June 10, 2015, the City Council approved creation of the Portland Utility Board, a new citizen oversight panel that will replace the Portland Utility Review Board and budget advisory committees for the Portland Water Bureau and Bureau of Environmental Services. The Portland Utility Board will advise City Council regarding operations of the two utility bureaus, including development of bureau budgets and financial plans, capital spending, and rate setting.

A five-year General Fund financial forecast, which serves as the basis for determining resources available for budgeting, is also provided to the City Council along with budget requests. Major City bureaus generally prepare and submit five-year financial plans and Capital Improvement Plans. The City Budget Office 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, 2016, the expected rate of return used was 0.67 percent and for subsequent years, the expected rate of return was 0.7 percent in FY 2016-17 and 1.00 percent in FY 2017-18 and beyond. 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, 2012.

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 \$682,800 for causes of action arising on or after July 1, 2015, and before July 1, 2016. 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 \$3,365,500 for causes of action arising on or after July 1, 2015, and before July 1, 2016. For causes of action arising on or after July 1, 2016, and before July 1, 2017, limitations increase to \$691,200 for single claimant and \$1,382,300 for multiple claimants.

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, 2015, and before July 1, 2016, are as follows: (a) \$112,000 for any single claimant and (b) \$560,000 to all claimants. For causes of action arising on or after July 1, 2016, and before July 1, 2017, limitations increase to \$113,400 for single claimant and \$566,900 for multiple claimants.

PENSION PLANS: OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM

Overview

The Oregon Public Employees Retirement System ("PERS" or "the Statewide PERS System") provides statewide defined benefit retirement plans for units of state government, political subdivisions, community colleges, and school districts. Most public employers in Oregon, including the City, participate in PERS. PERS is administered under 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-paid contributions (currently, for the City, six percent of salaries and nine percent for police and fire employees) fund these pension programs. See “—Employer Contribution Rates and Amounts” and “—PENSION PLANS: FIRE AND POLICE DISABILITY AND RETIREMENT FUND” below.

Benefit Programs

Employees hired before January 1, 1996, are known as “Tier 1” participants. The retirement benefits applicable to Tier 1 participants are based on a defined benefit model. Effective January 1, 2016, Tier 1 has an assumed earnings rate guarantee of 7.50 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, 2016, the balance of this reserve was \$448.8 million. As of June 30, 2016, there were 28,605 active plan members, 121,585 inactive plan members currently receiving benefits, 15,106 inactive plan members entitled to but not yet receiving benefits, and 10 inactive members not eligible for refund or retirement, for a total of 165,306 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, 2016, there were 39,205 active members, 12,336 inactive plan members currently receiving benefits, 15,291 inactive plan members entitled to but not yet receiving benefits, and 718 inactive members not eligible for refund or retirement, for a total of 67,550 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, 2016, there were 103,866 active members, 2,514 inactive plan members currently receiving benefits, 4,775 inactive plan members entitled to but not yet receiving benefits, and 10,025 inactive members not eligible for refund or retirement, for a total of 121,180 OPSRP Pension Program members.

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

Apportionment of City Assets and Liabilities

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

Employer Asset Valuation and Liabilities

Oregon statutes require an actuarial valuation of the Statewide PERS System by a competent actuary at least once every two years. The current PERS actuary is Milliman, Inc. (“Milliman”). Under current practice, actuarial valuations are performed annually, but only valuations as of the end of each odd-numbered year are used to determine annual required employer contribution rates that employers will be required to pay to fund the obligations of T1/T2 Pension Programs, OPSRP and the PERS-sponsored Retirement Health Insurance Account Plan (“RHIA”). For a description of RHIA, see “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 July 31, 2015, meeting, the PERS Board modified certain methods and assumptions which were to be used for the 2014 valuations and the 2015 valuations (the “2015 Board Changes”). The following table shows methods and assumptions adopted by the PERS Board, which are the basis for the actuarial valuations.

Table 12
OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM
Actuarial Assumptions and Methods

ASSUMPTION/METHOD	2012-2013 VALUATIONS	2014-2015 VALUATIONS (3) (2015 Board Changes)
Actuarial Cost Method:	Entry Age Normal	Entry Age Normal
UAL -Method:		
T1/T2 Programs	Level Percentage of Payroll over 20 years (fixed) (1)	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:	7.75%	7.50%
Payroll Growth Rate:	3.75%	3.50%
Inflation Level:	2.75%	2.50%
Contribution Rate Stabilization Method:	Contribution rate may increase or decrease by 3% of payroll or by 20% of the previous rate; whichever is greater, when an employer’s funded status is between 70% and 130%. At a funded status of 60% or less, or 140% or more, the limitation doubles to 6% of payroll or 40% of the previous rate, whichever is greater. At a funded status between 60% and 70% or 130% and 140%, the limitation increases in increments between 3%-6% of payroll or 20%-40% of the previous rate, whichever is greater.	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 Pension 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).
- (3) At its July 31, 2015, meeting, the PERS Board also made changes to actuarial assumptions including life expectancy and retirement age.

Source: Oregon Public Employees Retirement System.

Milliman released its 2014 valuation for the Statewide PERS System as of December 31, 2014, (the “2014 System Valuation”) on November 12, 2015, and its 2015 valuation for the Statewide PERS System as of December 31, 2015, (the “2015 System

Valuation”) on September 27, 2016. These reports include system-wide actuarial valuations for the T1/T2 Pension Programs and OPSRP.

Milliman released the City’s individual 2014 valuation report as of December 31, 2014, (the “2014 City Report”) on November 17, 2015, and its individual 2015 valuation report as of December 31, 2015, (the “2015 City Report”) on October 11, 2016. These valuation reports provide the City’s portion of (a) the SLGRP based on the City’s proportionate share of the total SLGRP covered payroll as of the valuation date, (b) OPSRP based on the City’s proportionate share of total OPSRP covered payroll as of the valuation date, and (c) the RHIA based on the City’s proportionate share of the total RHIA covered payroll as of the valuation date.

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

Table 13
OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM
Summary of Statewide PERS System Funding Levels
(\$ in Millions) (1)

STATEWIDE PERS SYSTEM				
Calendar	Actuarial	Unfunded		Funded
Year	Value of	Actuarial	Actuarial	Ratio (%)
	Assets	Liability	Liability	
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 (2)	54,784.1	60,405.2	5,621.1	90.7
2013 (2)	60,014.1	62,593.6	2,579.5	95.9
2014 (3)	61,395.1	73,458.9	12,063.8	83.6
2015 (4)	54,365.8	76,196.6	21,830.8	78.7

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) Reflects savings that were anticipated from the 2013 PERS Bills, but will not be realized because most of the 2013 PERS Bills were invalidated. See “—Recent Developments Related to PERS” below. Also reflects actuarial assumptions and methods described in Table 12 above.
- (3) Reflects the Oregon Supreme Court decision invalidating most of the 2013 PERS Bills. See “—Recent Developments Related to PERS” below. Reflects the 2015 Board Changes. See Table 12 above.
- (4) Reflects the Oregon Supreme Court decision invalidating most of the 2013 PERS Bills. See “—Recent Developments Related to PERS” below. Reflects the 2015 Board Changes. See Table 12 above. Also reflects actual investment returns during fiscal years 2015 and 2016. See Table 16 below.

Source: Oregon Public Employees Retirement System.

Table 14
OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM
Summary of City Funding Levels
(\$ in Millions) (1)

Calendar Year	Actuarial	Unfunded		Funded Ratio (%)
	Value of Assets	Actuarial Liability	Actuarial Liability	
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 (2)	1,624.8	1,744.3	119.5	93.2
2013 (2)	1,762.8	1,804.7	41.9	97.7
2014 (3)	1,844.1	2,210.1	366.0	83.4
2015 (4)	1,820.6	2,335.5	514.9	78.0

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) Reflects savings that were anticipated from the 2013 PERS Bills, but will not be realized because most of the 2013 PERS Bills were invalidated. See "—Recent Developments Related to PERS" below. Also reflects actuarial assumptions and methods described in Table 12 above.
- (3) Reflects the Oregon Supreme Court decision invalidating most of the 2013 PERS Bills. See "—Recent Developments Related to PERS" below. Reflects the 2015 Board Changes. See Table 12 above.
- (4) Reflects the Oregon Supreme Court decision invalidating most of the 2013 PERS Bills. See "—Recent Developments Related to PERS" below. Reflects the 2015 Board Changes. See Table 12 above. Also reflects actual investment returns during fiscal years 2015 and 2016. See Table 16 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 15
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
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%
2014	335,113,826	365,964,877	109%
2015	350,158,915	514,861,639	147%

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 was revised at the OIC meeting of June 3, 2015, and currently is 37.5 percent public equity, 17.5 percent private equity, 20 percent debt securities, 12.5 percent real estate, and 12.5 percent alternative equity.

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

Table 16
OREGON PUBLIC EMPLOYEES RETIREMENT FUND
Oregon PERS Investment Returns (1)

Fiscal Year	Net
Ending June 30	Returns (%)
2007	18.6
2008	-3.5
2009	-22.2
2010	17.0
2011	22.3
2012	1.6
2013	12.7
2014	16.6
2015	4.3
2016	1.2

Notes:

(1) Total fund performance, excluding variable account.

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2016, Oregon Public Employees Retirement System.

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 17
OREGON PUBLIC EMPLOYEES RETIREMENT FUND
Annualized Investment Results (1)

Periods Ending June 30, 2016	Annualized		
	1-Year	3-Year	5-Year
Total Portfolio, Excluding Variable	1.2%	7.2%	7.1%

Notes:

(1) Total fund performance, excluding variable account.

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2016, Oregon Public Employees Retirement System.

Investment returns for calendar year 2015 were substantially below the 7.50 percent assumed earnings rate, which is a large factor in the increase in the UAL of the PERS System and the City as of December 31, 2015. See Table 13 and Table 14 above.

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. See Table 12 for a summary of the Rate Collar in effect. Because of the Rate Collar, the PERS Board-approved employer contribution rates for some employers, including the City, are currently less than the actuarially required contribution (“ARC”).

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

The table below shows the City’s current employer contribution rates for the 2015-17 biennium that ends on June 30, 2017. The table also shows the City’s employer rates for the 2017-19 biennium that begins on July 1, 2017, as reported in the 2015 City Report. The rates reported in the table do not include the six percent and nine percent employee contribution rates for contributions to the IAP paid by the City.

Table 18
OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM
Employer Contribution Rates for the City
Percentage of Covered Payroll (1) (2)

Payrolls Paid	Current Rates	Future Rates
	2015-17	2017-19
T1/T2	12.85%	17.12%
OPSRP General Services	7.00%	10.26%
OPSRP Police and Fire	11.11%	15.03%

Notes:

- (1) Does not include contribution rates to fund RHIA. See “OTHER POST-EMPLOYEE RETIREMENT BENEFITS – PERS Program.” For FY 2015-16, one percent of the City’s covered payroll for the three pension benefit programs was approximately: \$1,540,773 for T1/T2 Pension Programs; \$1,568,542 for OPSRP general services; and \$398,607 for OPSRP police and fire.
- (2) Includes adjustments for side accounts and pre-SLGRP liabilities.

Source: City of Portland, Oregon Public Employees Retirement System, and 2014 City Report and 2015 City Report prepared by Milliman.

The City’s contribution rates may increase or decrease due to a variety of factors, including the investment performance of the OPERF, the use of pension-related reserves, further changes to system valuation methodology and assumptions and decisions by the PERS Board, and changes in benefits resulting from legislative modifications.

The City’s financial plan has been updated to incorporate higher growth assumptions for PERS employer rates. The financial plan assumes an increase in PERS rates of approximately four percentage points and OPSRP rates of approximately three percentage points above current rates for FY 2017-18 and FY 2018-19. For FY 2019-20 and FY 2020-21, the financial plan assumes an increase in PERS rates of another four percentage points and in OPSRP rates of another three percentage points.

City Funding Policy

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

Pension Obligation Bonds

In addition to their PERS contribution, City bureaus in existence as of November 10, 1999, (the issue date of the bonds) are required to make a contribution to pay debt service on outstanding Limited Tax Pension Obligation Revenue Bonds (the “Pension Obligation Bonds”), which were issued to fund the City’s share of the unfunded actuarial liabilities of PERS as of December 31, 1997. The Pension Obligation Bonds were issued in three series: one series of fixed rate bonds in an amount of \$150,848,346 and two series of auction rate securities in an aggregate amount of \$150,000,000. 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. Proceeds of the Pension Obligation Bonds were deposited in an account with PERS. Table 19 below shows the debt service paid by the City on its Pension Obligation Bonds.

Total City Pension Contribution

The following table shows the amount of City contributions paid to PERS for the three pension programs including amounts paid by the City for the employee contribution. Contributions include the payments from the Fire and Police Disability and Retirement Fund for pensions of police and firefighters participating in the T1/T2 Pension Programs and OPSRP. Fire and Police Disability and Retirement Fund contributions are funded from a dedicated Citywide property tax levy. See “—PENSION PLANS: FIRE AND POLICE DISABILTY AND RETIREMENT FUND” below. In FY 2015-16, 60.7 percent of the total cash contribution was for the employer share and 39.3 percent was for the employee share. The City made its required contribution for its pension obligation in all years. See “—Employer Contribution Rates and Amounts” above.

Table 19
CITY OF PORTLAND, OREGON
City Contribution to PERS

Fiscal Year Ending June 30	City’s Required Cash Contribution to PERS (1)	Debt Service on Pension Obligation Bonds	Total Cash Contribution for Pension Costs
2007	\$31,172,696	\$18,990,492	\$50,163,188
2008	32,779,658	19,839,413	52,619,071
2009	35,326,820	16,059,937	51,386,757
2010	32,598,608	15,223,638	47,822,246
2011	33,622,080	16,413,710	50,035,790
2012	45,229,731	17,738,966	62,968,697
2013	45,278,556	19,432,611	64,711,167
2014	45,868,558	21,128,704	66,997,262
2015	46,969,145	23,204,402	70,173,547
2016	55,530,023	25,350,326	80,880,349

Notes:

- (1) Includes City’s statutorily required employer contribution for T1/T2 and OPSRP pension program and its pension contribution on behalf of employees. Includes contributions from 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 “2013 PERS Bills”) that were expected to: 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 increases 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 were expected to reduce the amount of future benefit payments from the Statewide PERS System and reduce the unfunded actuarial liability of the Statewide PERS 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 Statewide PERS System by approximately \$2.5 billion. See Table 12 for a summary of the changes made by the PERS Board.

Several lawsuits were filed challenging the 2013 PERS Bills. On April 30, 2015, the Oregon Supreme Court released its decision in these cases. According to its decision, the Supreme Court invalidated the limits on COLAs insofar as they apply to benefits that members earned before the effective dates of the 2013 PERS Bills and upheld the elimination of the benefit increase for out-of-state retirees.

Implementation of Governmental Accounting Standards Board Statement No. 68

As reflected in its Comprehensive Annual Financial Report (“CAFR”) for the fiscal year ended June 30, 2015, the City implemented Governmental Accounting Standards Board Statement No. 68 (“GASB 68”), which significantly changed employer reporting of defined benefit pension plans for state and local governments. Under these new standards, for the fiscal year ending June 30, 2016, the City reported a net pension liability of \$217.1 million and a pension expense of \$165.1 million. See the City’s CAFR for the fiscal year ended June 30, 2016, posted on the EMMA website. The amount does not reflect changes made by the board after June 30, 2015, including the reduction in the investment rate of return from 7.75 percent to 7.50 percent.

PENSION PLANS: FIRE AND POLICE DISABILITY AND RETIREMENT FUND

Overview

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

The FPDR Plan’s authority for vesting and benefit provisions is provided by Chapter 5 of the City Charter. Amendments require majority approval of the voters in the City. Ten revisions have been passed by the voters since the creation of the plan. The most recent revision, comprised of eleven different plan amendments, was passed November 6, 2012.

City Council may provide by ordinance any additional benefits that the City is required by law to extend to the members and may also change benefits by ordinance to maintain the FPDR Plan’s tax-qualified status. City Council amended the FPDR Plan three times in 2016 to provide additional benefits in compliance with arbitrators’ orders. The first amendment added a reversionary benefit when an alternate payee (a former spouse who has been granted a portion of a member’s pension) predeceases the member. The second and third amendments changed the definition of final pay used to calculate FPDR Two pension benefits. Prior to January 1, 2013, final pay was defined as pay received during a 12-month period. The City’s biweekly pay structure occasionally results in 27 pay checks, rather than the usual 26, in a 12-month period. In 2012, City of Portland voters changed the definition of final pay to include 365-366 days of pay, which is equivalent to approximately 26.1 pay checks. Arbitrators ordered the City to make whole members of the Portland Police Association, Portland Fire Fighters Association, and Portland Police Commanding Officers Association whose pensions (current or future) were reduced by the change. Council amended the City Charter to define final pay for FPDR Two members in these bargaining units as the greater of the two methods, 26.1 or 27 pay checks.

Benefit Programs

The FPDR Plan consists of three tiers, two of which are now closed to new employees. The retirement plans for FPDR One, the original plan, and FPDR Two, in which most active fire and police personnel participate, are single-employer, defined-benefit plans administered by the FPDR Board. In addition to retirement benefits for FPDR One and FPDR Two members, the FPDR Plan provides for service-connected, nonservice-connected, and occupational disability benefits for FPDR One, FPDR Two and FPDR Three members. FPDR Plan members do not participate in Social Security and do not receive Social Security benefits for their years of service.

FPDR One. Sworn members of the Police and Fire Bureaus subject to the FPDR Plan as constituted prior to July 1, 1990, are included in the FPDR One tier. All FPDR One members are now retired or receiving long-term disability benefits. Under FPDR One, retirement benefits are provided upon termination of employment on or after attaining age 50 (with 25 or more years of service) or 55 (with 20 years or more of service). Retirement benefits are paid to members at two percent of current top-step pay for a police officer or firefighter for each year of active service (up to 60 percent); therefore, FPDR One members receive postretirement benefit increases equal to increases in current top-step police officer or firefighter pay. As of June 30, 2016, there were 500 members and beneficiaries in FPDR One.

FPDR Two. Sworn members of the Police and Fire Bureaus subject to the FPDR Plan as constituted after June 30, 1990, and first sworn before January 1, 2007, are included in the FPDR Two tier. Under FPDR Two, retirement benefits are provided upon termination of employment on or after attaining age 55, or on or after attaining age 50 if the member has 25 or more years of service. Members become 100 percent vested after five years of service. Benefits are paid using a formula tied to years of service and the highest one-year base pay the member received during the final three years of employment. The FPDR Board has the authority to grant postretirement benefit increases to FPDR Two members, so long as the increases do not exceed increases awarded to sworn retirees of PERS. Members enrolled in the FPDR Plan and still working prior to July 1, 1990, were required to make an election as to whether they wished to fall under the provisions of the FPDR Plan as constituted prior to July 1, 1990 (now called FPDR One) or become subject to the new FPDR Two provisions after June 30, 1990. As of June 30, 2016, there were 2,497 members and beneficiaries in FPDR Two.

FPDR Three. Sworn members of the Police and Fire Bureaus hired on or after January 1, 2007, are included in the FPDR Three tier; those sworn on or after January 1, 2013, become FPDR Three members after six months of service. These participants are part of OPSRP for retirement benefits and are under the FPDR Plan for disability and pre-retirement death benefits, offset by any benefits received on account of disability or death under OPSRP. Retirement benefits for these participants are pre-funded, and the FPDR levy pays the employee and employer portions of the OPSRP contribution. For information regarding OPSRP and the employee and employer contribution rates for OPSRP, see "PENSION PLANS: OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM," above. As of June 30, 2016, there were 464 FPDR Three members.

Funding

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) that is 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 collections from this special property tax levy for the FPDR Plan are less than the amount required for payment of benefits in any particular year, the FPDR Fund could receive advances from the FPDR Reserve Fund first and then from other City funds to make up the difference. While the FPDR Fund has not experienced any funding shortfalls to date, future funding is dependent on the availability of property tax revenues and, in the absence of sufficient property tax revenues, City funds.

Although the City Charter provides the FPDR Plan with dedicated property tax levy authority, the Oregon state constitution caps each property's general government taxes at \$10 per \$1,000 of Real Market Value. After reaching this point, all levies, including the FPDR levy, are subject to Measure 5 compression to fit within the \$10 limit. For this reason, it is unlikely that FPDR could collect the full \$2.80 per \$1,000 of Real Market Value on each property. In FY 2016-17, the tax loss due to Measure 5 compression was \$6.5 million, or 4.7 percent of the FPDR tax levy.

Retirement Plan Asset Valuation and Liabilities

The table below shows key assumptions for the most recent valuation of the FPDR Plan. Key actuarial assumptions have changed over time, including a change from Attained Age Normal to Entry Age Normal for retirement benefits with the June 30, 2012, valuation. Mortality and other assumptions are regularly reviewed and updated as needed. The discount rate has changed over time to reflect economic conditions. Beginning with the June 30, 2014, valuation, the discount rate is equal to the June 30 value of the Bond Buyer General Obligation 20-Bond Municipal Bond Index each year, in accordance with the requirement of Governmental Accounting Standards Board Statement No. 67 (“GASB 67”) that plans use a risk-free discount rate for the portion of the plan’s liability that is not prefunded.

Table 20
CITY OF PORTLAND, OREGON
FPDR Plan -- Actuarial Assumptions and Methods
For the June 30, 2016 Valuation

Actuarial Cost Method	Entry Age Normal
Actuarial Value of Assets	Market Value
Funding Policy	Pay-As-You-Go
Discount Rate	2.85%
Payroll Growth Rate	3.75%

Source: Milliman Inc., City of Portland Fire & Police Disability & Retirement (FPDR) Fund, Pension Actuarial Valuation Report as of June 30, 2016, dated January 16, 2017.

As distinguished from the pension plan for FPDR Three members, assets generally are not accumulated in the current year to pay for benefit payments in future years for the FPDR Plan. The table below shows funding levels for the FPDR Plan over the past ten fiscal years. In accordance with the Charter’s provisions, there are no requirements to fund the FPDR Plan using actuarial techniques. The FPDR Plan is funded on a pay-as-you-go basis. Each year’s benefits and expenses are paid for with employer contributions derived from dedicated property tax revenue received during that year. Because of the FPDR Plan’s pay-as-you-go funding basis, the unfunded actuarial accrued pension liability and net pension liability (the new terminology per GASB 67 implemented by the City effective June 30, 2014), do not reflect the value of dedicated future revenues from the property tax levy. See “—Levy Adequacy” below. As reflected in the City’s CAFR for its fiscal year ended June 30, 2016, and required by GASB 68, the net pension liability for the FPDR Plan is a primary factor in the City’s unrestricted net position deficit for governmental activities for the fiscal year ended June 30, 2016 and contributed to the City’s total net position decrease from FY 2012-13 to FY 2013-14. See table entitled “Net Position by Component Last Ten Fiscal Years (accrual basis of accounting)” on page 306 of the City’s CAFR for its fiscal year ended June 30, 2016, which is available on EMMA.

Table 21
CITY OF PORTLAND, OREGON
FPDR Plan --Summary of Funding Levels (1)

Fiscal Year	Actuarial Value of Assets	Actuarial Liability	Unfunded Actuarial Liability (1)	Funded Ratio (2)
2005	\$15,121,840	\$1,684,457,000	\$1,669,335,160	0.90%
2006	15,266,971	1,817,661,000	1,802,394,029	0.84%
2007 (3)	9,884,902	1,919,501,000	1,909,616,098	0.51%
2008	5,377,290	2,217,414,215	2,212,036,925	0.24%
2009 (3)	11,571,074	2,279,923,000	2,268,351,926	0.51%
2010	16,542,896	2,549,479,088	2,532,936,192	0.65%
2011 (3)	25,648,253	2,610,360,794	2,584,712,541	0.98%
2012 (3)	20,287,803	2,674,072,175	2,653,784,372	0.76%

Fiscal Year	Plan Net Position, Ending	Total Pension Liability	Net Pension Liability (2)	Net Position as Percent of Total Liability
2013 (3)	\$17,155,015	\$2,517,096,534	\$2,499,941,519	0.68%
2014 (3)	20,532,924	2,473,970,866	2,453,437,942	0.83%
2015 (3)	21,876,942	2,896,894,767	2,875,017,825	0.76%
2016 (3)	17,425,353	3,391,461,315	3,374,035,962	0.51%

Notes:

- (1) Table reflects transition to new accounting classifications as required by the Governmental Accounting Standards Board.
- (2) Does not include value of future dedicated FPDR property tax collections.
- (3) Amounts are calculated by rolling forward prior actuarial valuations. Also see Table 22 below for a summary of the June 30, 2014, and June 30, 2016, valuations.

Source: City of Portland audited financial statements.

Overall the unfunded actuarial liability increased from \$2.49 billion on June 30, 2014, to \$3.69 billion on June 30, 2016, as shown in Table 22 below. Note that these valuations differ from results shown in Table 21 above because they are based on actual results prepared by Milliman and are not roll-forward amounts of prior valuations.

Table 22
CITY OF PORTLAND, OREGON
FPDR Plan--Summary of Most Recent Actuarial Valuations

Fiscal Year	Plan Assets	Total Pension Liability	Net Pension Liability
2014	\$20,532,924	\$2,488,261,858	\$2,467,728,934
2016	17,425,353	3,689,965,110	3,672,539,757

Source: Milliman Inc., City of Portland Fire & Police Disability & Retirement (FPDR) Fund, Pension Actuarial Valuation Report as of June 30, 2016, dated January 16, 2017.

The single largest driver of the higher liability is the discount rate (the June 30 value of the Bond Buyer General Obligation 20-Bond Municipal Bond Index each year). The rate dropped from 4.29 percent on June 30, 2014, to 2.85 percent on June 30, 2016, resulting in a \$574 million increase in the plan liability. As described above, the FPDR Plan provides that FPDR Two postretirement benefit increases cannot exceed the postretirement benefit increases for PERS sworn retirees. For the 2014

valuation, these adjustments were based on the PERS COLA as modified by the 2013 PERS Bills, which reduced the maximum COLA from 2.0 percent to 1.25 percent. However, the lower COLA was invalidated by the Oregon Supreme Court in 2015, insofar as it applies to benefits that members earned before the effective dates of the 2013 changes (see “—Recent Developments Related to PERS”). The PERS Board subsequently adopted a blended COLA, which applies up to 2.0 percent for the percentage of service credited before October 2013 and 1.25 percent for later service. The FPDR Board chose a similar COLA methodology in 2015 and 2016, and directed the actuaries to assume this methodology continues for purposes of the 2016 valuation. The higher COLA assumption increased the liability by \$289 million between June 30, 2014, and June 30, 2016. A final significant change was an update to the plan’s mortality assumptions, which the FPDR Board has decided will mirror the mortality experience in the larger pool of PERS sworn members. Longer life expectancies for retirees increased the liability by another \$147 million.

Levy Adequacy

Since the FPDR Plan is a pay-as-you-go plan funded with a dedicated property tax, the critical measure of its financial health is whether this property tax will ever be insufficient to fully cover plan expenditures. The table below compares the certified tax levy for FPDR Plan contributions (for FPDR One and FPDR Two participants) and OPSRP contributions (for FPDR Three participants) with the amount authorized based on the \$2.80/\$1,000 Charter limitation. Between FY 2007-08 and FY 2016-17, Real Market Value of property subject to taxation has grown by a compounded annual rate of approximately 4.1 percent.

Table 23
CITY OF PORTLAND, OREGON
FPDR Fund--Certified Levies Compared with Maximum Levies Authorized

FYE June 30	Tax Levy per \$1,000 RMV	Certified Tax Levy (1)	Maximum Levy Authorized (\$2.80/1,000 RMV)	Amount Available to be Certified from Authorized Levy
2008	\$1.13	\$95,365,463	\$236,014,742	\$140,649,279
2009	1.23	111,152,436	253,003,644	141,851,208
2010	1.29	114,980,456	249,261,909	134,281,453
2011	1.37	118,526,184	241,849,105	123,322,921
2012	1.41	114,264,711	227,257,618	112,992,907
2013	1.55	123,564,952	223,709,460	100,144,508
2014	1.62	136,383,540	235,325,707	98,942,167
2015	1.48	136,883,230	259,331,341	122,448,111
2016	1.30	133,795,013	287,358,793	153,563,780
2017	1.15	138,900,728	338,199,473	199,298,745

Notes:

(1) Before Measure 5 compression, delinquencies and discounts.

Source: City of Portland.

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

Table 24
CITY OF PORTLAND, OREGON
FPDR Fund--Imposed Levies and Expenditures for
Pension Benefits and Death/Disability Benefits

FYE June 30	Imposed Tax Levy (1)	FPDR One & Two Pension Benefits	FPDR Three OPSRP Contributions	Disability & Funeral Benefits	Total FPDR Benefit Contributions
2007	\$84,180,663	\$74,375,304	\$0	\$10,849,102	\$85,224,406
2008	92,819,416	80,718,048	726,748	10,876,351	92,321,147
2009	107,869,880	85,079,520	1,774,991	9,241,784	96,096,295
2010	111,376,678	89,038,110	2,210,250	9,075,988	100,324,348
2011	114,217,070	90,464,611	2,865,737	7,938,636	101,268,984
2012	108,666,428	94,708,986	4,735,637	7,064,187	106,508,810
2013	115,752,880	99,417,595	5,265,815	6,725,710	111,409,120
2014	123,304,615	103,506,696	5,998,321	7,410,977	116,915,994
2015	126,777,805	103,355,638	6,952,685	6,219,646	116,527,969
2016	126,376,817	107,074,899	8,699,501	6,420,506	122,194,906

Notes:

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

Source: City of Portland.

The FPDR Board assesses the FPDR Plan’s long-term financial condition in part by projecting the future availability of revenues from the dedicated property tax (the “Levy Adequacy Analysis”), which are the source of employer contributions under the Charter. The most recent Levy Adequacy Analysis, completed by an independent actuary in connection with the actuarial valuation of the fund, was as of June 30, 2016. The Levy Adequacy Analysis found that, under a wide range of simulated economic scenarios over the next 20 years, 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 fewer than three percent of modeled scenarios. This represents a decline from approximately four percent of modeled scenarios in the prior analysis as of June 30, 2014. Real Market Values in the City’s tax base have grown by more than enough to offset more expensive plan benefits. The first year in which the percent of scenarios exceeding the levy limit reaches the one percent level is FY 2031-32. Pay-as-you-go costs peak in FY 2036-37 in nominal terms; the peak on an inflation-adjusted basis is in FY 2031-32.

The table below shows projected levy rates and taxes levied at the 50th and 5th percentiles for FY 2016-17 through FY 2035-36 as included in the 2016 Levy Adequacy Analysis. Note that actual levy rate in FY 2016-17 was \$1.15 per \$1,000 of Real Market Value.

Table 25
CITY OF PORTLAND, OREGON
FPDR Fund--Projected Levy Rate, Taxes and Requirements

Fiscal Year Ended June 30	Levy Rate at 50th Percentile	Taxes Levied at 50th Percentile	Levy Rate at 5th Percentile	Taxes Levied at 5th Percentile
2017	\$1.18	\$143,100,000	\$1.18	\$143,100,000
2018	1.13	150,100,000	1.13	150,100,000
2019	1.13	157,300,000	1.27	158,700,000
2020	1.18	170,300,000	1.39	173,800,000
2021	1.19	179,100,000	1.45	183,500,000
2022	1.23	194,400,000	1.59	203,700,000
2023	1.24	204,400,000	1.65	215,200,000
2024	1.25	216,700,000	1.75	234,000,000
2025	1.26	229,000,000	1.82	248,400,000
2026	1.28	243,000,000	1.91	267,700,000
2027	1.30	257,000,000	1.95	284,800,000
2028	1.31	271,100,000	2.03	304,100,000
2029	1.31	284,900,000	2.07	321,900,000
2030	1.37	311,600,000	2.22	354,300,000
2031	1.37	325,900,000	2.26	372,100,000
2032	1.36	339,000,000	2.32	392,700,000
2033	1.35	352,200,000	2.34	409,800,000
2034	1.33	362,200,000	2.38	428,700,000
2035	1.30	372,400,000	2.37	443,000,000
2036	1.21	361,700,000	2.27	437,600,000

Notes:

- (1) Results are expressed as a probability distribution. Amounts shown in table are median values within percentile categories. Actual rates for FY 2016-17 are found in the table entitled "FPDR Fund—Certified Levies Compared with Maximum Levies Authorized."

Source: Milliman, Inc., FPDR Levy Adequacy Analysis as of June 30, 2016, dated January 24, 2017.

The current analysis extends through FY 2035-36 and encompasses all facts, decisions and conditions pertaining to the FPDR Plan known at the time the analysis was completed. Future actuarial measurements may differ significantly from the measurements presented herein due to factors such as changes in economic or demographic assumptions (including changes in Real Market Value); changes related to PERS, performance of investments, and changes in FPDR Plan benefit provisions or applicable law.

OTHER POST-EMPLOYMENT RETIREMENT BENEFITS ("OPEB")

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

PERS Program

Retirees who receive pension benefits through the T1/T2 Pension Programs and are enrolled in certain PERS-administered health insurance programs may also receive a subsidy towards the payment of health insurance premiums. Under ORS 238.420, retirees may receive a subsidy for Medicare supplemental health insurance of up to \$60 per month towards the cost of their health insurance premiums under the RHIA program. RHIA's assets and liabilities are pooled on a system-wide basis. These assets and liabilities are not tracked or calculated on an employer basis. The City's allocated share of the RHIA program's assets and liabilities is based on the City's proportionate share of the program's pooled covered payroll. According to the 2015 City Report, the City's allocated share of the RHIA program's UAL was \$1,700,252 as of December 31, 2015.

The City's current employer 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. According to the 2015 City Report, the rate to fund RHIA benefits during the 2017-19 biennium for T1/T2 employees is 0.50 percent and for OPSRP general services and

policy and fire employees is 0.43 percent. These employer contribution rates to fund RHIA are not reflected in the rates described in Table 18 above.

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, 4.2 percent to 4.5 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, 2015 (the date of the most recent actuarial valuation), is estimated to be \$79,200,156. 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, 2017.

The City’s annual OPEB cost is calculated based on the actuarially-determined 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 2015-16, the amount to be recognized as the annual employer OPEB cost was \$5,973,053. For fiscal year ended June 30, 2016, the City benefits paid on behalf of retirees exceeded the premiums they paid by \$1,058,108. The City elected to not pre-fund the FY 2015-16 annual OPEB cost. The amount unfunded in FY 2015-16 is \$43,102,7746, which is the OPEB obligation from the beginning of the fiscal year, plus the ARC for FY 2015-16 along with interest on the net OPEB obligation and adjustments, less payments made in relation to the FY 2015-16 net OPEB obligation. The City expects to use a pay-as-you-go approach to fund its actuarial accrued liability and OPEB obligation, but will monitor its OPEB liability and assess whether a different approach is needed in future years.

LITIGATION

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

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

On December 6, 2011, the City was sued by a group of water and sewer ratepayers in *Anderson et al. v. City of Portland, Multnomah County Circuit Court Case No. 1112-15957* (the “Anderson Case”). Plaintiffs challenged certain expenditures by the City’s Water Bureau and Bureau of Environmental Services, alleging that the expenditures were not authorized by the City Charter and seeking to reimburse the Water Fund and Sewage Disposal Fund. Based on court rulings and City investigation to date, the City estimates that if plaintiffs prevailed on all claims and a court ordered the relief requested, the reimbursement amount could exceed \$50 million. The City has not identified potential sources of any court-ordered reimbursement, but such sources could include any legally available resources of the City, including the City’s General Fund. The City has vigorously defended this lawsuit, and on January 5, 2017, the Court rendered an opinion on the last of the issues before it. The City has prevailed on most of the claims. A final remedy phase will take place in the first half of 2017 to determine the City’s total exposure. Because the City anticipates that any judgment will entail the transfer of funds to water and sewer funds and not out of those funds, the City does not expect there to be an adverse effect of the Water System or its Net Revenues.

A 2012 court ruling, *NWEA v. EPA*, (U.S. D.C. Oregon, No. 05-1876, Opinion and Order, Feb. 28, 2012), declared that certain Oregon water temperature rules related to the protection of cold water fish, such as salmon and steelhead violate the federal Clean Water Act. The City previously received approval from the ODEQ for its Bull Run water supply operations under the challenged rules. The Court issued a follow-up opinion on October 14, 2016, but its impacts are still being assessed by attorneys for all parties. When replacement rules are promulgated, the DEQ may ask the City to review its operations in light of the new rules. Without knowing the exact nature of the new rules, it is difficult to gauge the ultimate outcome of such a review. Nonetheless, it seems likely that the standards will be tightened in some degree. In that case, the City may have to conduct additional analysis or further alter its operations to meet new requirements, both of which would impose additional costs on the Water System.

In 2000, Portland Harbor, a 10-mile industrial reach of the Willamette River outside of the City's urban center, was listed by the EPA as a federal Superfund site. The EPA notified the City that it may have liability for releases of contaminants in the Willamette River. The City may also have liabilities to Natural Resource Trustees of the Willamette River (including tribes, and federal and state resource agencies) for damages to natural resources in Portland Harbor. The City's FY 2016-17 Adopted Budget identified expenditures for the Portland Harbor Superfund of \$6.2 million.

On January 6, 2017, the EPA issued its Record of Decision for the Portland Harbor Superfund Site which identifies EPA's selected remedy. EPA estimated capital costs to implement the selected remedy of approximately \$1.2 billion. EPA is requiring an additional phase of environmental sampling before remedy design can be conducted. The time frame for that work is unknown and the work may change the expected costs of the remedy. The costs associated with the remedy have not been allocated among the numerous potentially liable parties.

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

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

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 2012, 2013, 2014, 2015 and 2016. Copies of these financial statements containing the reports of the independent certified public accountants are available on the City's website at:

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

The following pages in this Appendix A are excerpted from the City's Comprehensive Annual Financial Reports of the City for Fiscal Years ending June 30, 2012 through June 30, 2016.

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
Water Fund
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Years Ended June 30

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Operating revenues:					
Service charges and fees	\$ 130,441,210	\$ 142,083,067	\$ 141,419,746	\$ 157,380,504	\$ 173,487,191
Service charges and fees provided internally	-	3,776,243	3,449,785	2,976,787	3,179,359
Miscellaneous	469,928	1,655,039	891,265	391,942	428,140
Total operating revenues	<u>130,911,138</u>	<u>147,514,349</u>	<u>145,760,796</u>	<u>160,749,233</u>	<u>177,094,690</u>
Operating expenses:					
Salaries and wages	38,308,147	35,947,904	36,039,039	23,071,213	58,594,493
Operating supplies	3,228,096	3,036,208	3,221,308	3,655,498	3,820,480
Professional services	18,406,542	1,141,427	1,368,457	1,581,177	1,430,391
Services and materials provided internally	-	16,047,159	16,023,162	16,279,698	17,538,439
Utilities	2,038,069	1,705,957	1,788,967	1,920,607	3,155,593
Miscellaneous	4,304,743	6,762,736	4,667,051	5,363,404	5,366,481
Utility license fees	4,279,884	5,356,663	5,528,579	6,007,691	6,536,256
Depreciation expense	22,290,243	22,804,040	25,870,266	25,747,919	29,029,736
Total operating expenses	<u>92,855,724</u>	<u>92,802,094</u>	<u>94,506,829</u>	<u>83,627,207</u>	<u>125,471,869</u>
Operating income (loss)	<u>38,055,414</u>	<u>54,712,255</u>	<u>51,253,967</u>	<u>77,122,026</u>	<u>51,622,821</u>
Nonoperating revenues (expenses):					
Gain (loss) on sale of capital assets	(697,064)	(2,166,229)	(2,497,943)	(1,150,129)	(2,788,130)
Investment earnings	541,346	273,524	1,504,424	1,003,061	1,849,415
Interest expense	(15,255,913)	(24,028,638)	(15,802,984)	(20,345,687)	(22,321,528)
Debt issuance costs	-	(1,385,515)	-	(252,949)	-
Miscellaneous	585,623	(316,023)	714,716	639,538	699,409
Total nonoperating revenues (expenses)	<u>(14,826,008)</u>	<u>(27,622,881)</u>	<u>(16,081,787)</u>	<u>(20,106,166)</u>	<u>(22,560,834)</u>
Income (loss) before contributions and transfers	23,229,406	27,089,374	35,172,180	57,015,860	29,061,987
Transfers in	140,008	159,692	-	119,083	35,000
Transfers out	(487,823)	(462,762)	(634,050)	(626,104)	(656,657)
Capital contributions	784,017	536,303	197,470	499,708	222,790
Income before special item	23,665,608	27,322,607	34,735,600	57,008,547	28,663,120
Special item:					
Capital asset write-off	(16,855,522)	-	-	-	-
Change in net position	<u>6,810,086</u>	<u>27,322,607</u>	<u>34,735,600</u>	<u>57,008,547</u>	<u>28,663,120</u>
Total net position - beginning previously reported	-	-	-	492,451,439	511,948,823
Restatement per GASB 68 implementation	-	-	-	(37,511,163)	-
Total net position -- beginning	<u>423,583,146</u>	<u>430,393,232</u>	<u>457,715,839</u>	<u>454,940,276</u>	<u>511,948,823</u>
Total net position -- ending	<u>\$ 430,393,232</u>	<u>\$ 457,715,839</u>	<u>\$ 492,451,439</u>	<u>\$ 511,948,823</u>	<u>\$ 540,611,943</u>

Source: City of Portland. Audited financial statements.

CITY OF PORTLAND, OREGON
Water Fund
Statement of Net Position
As of June 30

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
ASSETS					
Current assets (unrestricted):					
Cash and investments	\$ 64,626,887	\$ 67,487,424	\$ 80,318,903	\$ 86,861,714	\$ 109,603,859
Receivables					
Accounts, net	18,632,057	21,779,118	21,247,691	24,256,822	27,523,273
Assessments	210,364	197,076	239,908	299,408	306,645
Advances	2,804,400	307,848	245,568	227,328	267,763
Accrued interest	316,392	294,317	242,925	414,593	495,988
Due from other funds	380,883	8,175	8,175	8,175	-
Inventories	1,560,613	1,800,457	1,860,464	2,147,595	2,119,687
Prepaid expenses	-	-	-	-	-
Total current assets (unrestricted)	<u>88,531,596</u>	<u>91,874,415</u>	<u>104,163,634</u>	<u>114,215,635</u>	<u>140,317,215</u>
Current assets (restricted):					
Cash and investments	-	10,758,095	7,844,566	5,411,508	2,625,654
Total current assets (restricted)	<u>-</u>	<u>10,758,095</u>	<u>7,844,566</u>	<u>5,411,508</u>	<u>2,625,654</u>
Total current assets	88,531,596	102,632,510	112,008,200	119,627,143	142,942,869
Noncurrent assets (unrestricted):					
Capital assets, not being depreciated or amortized:					
Land	15,120,632	16,860,555	14,779,034	15,029,156	15,252,949
Construction in progress	120,727,125	202,876,706	223,600,474	92,044,177	81,303,435
Intangible assets/land use rights	2,315,561	2,594,272	2,622,487	3,211,842	3,525,180
Capital assets, being depreciated or amortized:					
Infrastructure	874,286,315	908,277,438	981,654,125	1,167,153,932	1,213,069,235
Buildings	37,283,939	34,372,090	61,143,415	78,186,859	80,571,820
Improvements to land	14,392,055	14,516,957	18,431,666	32,593,279	50,806,413
Machinery and equipment	28,870,122	29,938,384	32,056,168	32,336,697	34,994,539
Intangible assets/use, owning rights/software	1,420,803	3,002,052	3,077,235	3,219,925	3,622,231
Accumulated depreciation and amortization	<u>(337,264,984)</u>	<u>(343,009,215)</u>	<u>(364,271,887)</u>	<u>(383,187,171)</u>	<u>(405,940,881)</u>
Capital assets net of accumulated depreciation and amortization	757,151,568	869,429,239	973,092,717	1,040,588,696	1,077,204,921
Receivables:					
Assessments	51,626	183,540	219,858	251,946	269,510
Pension asset	20,335,394	19,167,811	18,000,228	10,056,132	-
Total non-current assets (unrestricted)	<u>777,538,588</u>	<u>888,780,590</u>	<u>991,312,803</u>	<u>1,050,896,774</u>	<u>1,077,474,431</u>
Noncurrent assets (restricted):					
Cash and investments	15,884,413	163,417,795	58,555,117	89,890,089	46,973,948
Total non-current assets	<u>793,423,001</u>	<u>1,052,198,385</u>	<u>1,049,867,920</u>	<u>1,140,786,863</u>	<u>1,124,448,379</u>
Total assets	<u>881,954,597</u>	<u>1,154,830,895</u>	<u>1,161,876,120</u>	<u>1,260,414,006</u>	<u>1,267,391,248</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows - pensions	-	-	-	3,301,241	5,906,769
Total deferred outflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,301,241</u>	<u>5,906,769</u>

CITY OF PORTLAND, OREGON
Water Fund
Statement of Net Position (continued)
As of June 30

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
LIABILITIES					
Current liabilities (payable from unrestricted assets):					
Accounts payable	14,518,808	4,764,457	4,509,532	5,716,250	4,792,206
Compensated absences	3,544,030	3,801,472	4,073,326	4,149,020	4,163,216
Unearned revenue	244,142	233,659	264,952	256,915	337,384
Bonds payable	16,897,751	26,829,194	26,818,549	30,196,739	31,781,557
Notes and loans payable	282,195	-	-	-	-
Accrued interest payable - current	3,505,602	4,623,779	5,388,639	5,739,240	5,490,162
Pollution remediation	-	239,500	370,000	550,000	545,000
Self insurance claims	-	-	-	-	189,831
Other liabilities - current	39,753	-	-	-	134,138
Total current liabilities (unrestricted)	<u>39,032,281</u>	<u>40,492,061</u>	<u>41,424,998</u>	<u>46,608,164</u>	<u>47,433,494</u>
Current liabilities (payable from restricted assets):					
Accounts payable	-	10,758,095	7,844,566	5,411,508	2,625,654
Total current liabilities (restricted)	<u>-</u>	<u>10,758,095</u>	<u>7,844,566</u>	<u>5,411,508</u>	<u>2,625,654</u>
Total current liabilities	<u>39,032,281</u>	<u>51,250,156</u>	<u>49,269,564</u>	<u>52,019,672</u>	<u>50,059,148</u>
Noncurrent liabilities:					
Self insurance claims	-	-	-	-	937,090
Compensated absences	622,685	388,603	124,141	-	146,994
Bonds payable	402,710,996	634,977,346	608,158,798	665,979,141	634,197,583
Accrued interest payable	7,649,316	8,641,584	9,714,103	10,873,407	12,126,443
Net PERS liability	-	-	-	-	25,103,554
Other postemployment benefits	1,546,087	1,704,867	1,745,075	1,797,052	1,787,268
Pollution remediation	-	152,500	413,000	-	175,000
Total noncurrent liabilities	<u>412,529,084</u>	<u>645,864,900</u>	<u>620,155,117</u>	<u>678,649,600</u>	<u>674,473,932</u>
Total liabilities	<u>451,561,365</u>	<u>697,115,056</u>	<u>669,424,681</u>	<u>730,669,272</u>	<u>724,533,080</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows - pensions	-	-	-	20,102,011	7,312,227
Deferred charge for debt refunding	-	-	-	995,141	840,767
Total deferred inflows of resources				<u>21,097,152</u>	<u>8,152,994</u>
NET POSITION					
Net investment in capital assets	383,545,046	400,049,174	424,081,178	458,896,340	480,880,921
Restricted for debt service	-	-	-	-	-
Unrestricted	46,848,186	57,666,665	68,370,261	53,052,483	59,731,022
Total net position	<u>\$ 430,393,232</u>	<u>\$ 457,715,839</u>	<u>\$ 492,451,439</u>	<u>\$ 511,948,823</u>	<u>\$ 540,611,943</u>

Source: City of Portland. Audited financial statements.

CITY OF PORTLAND, OREGON
Water Fund
Statement of Cash Flows
For Fiscal Years Ended June 30

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITY					
Receipts from customers and users	\$ 122,371,813	\$ 142,806,316	\$ 142,811,553	\$ 154,664,651	\$ 170,670,640
Receipts from interfund services provided	3,101,363	4,148,951	3,449,784	2,976,787	3,179,359
Payments to suppliers	(2,152,285)	(8,260,343)	(19,380,529)	(20,274,848)	(22,560,139)
Payments to employees	(36,755,255)	(34,598,181)	(34,823,855)	(35,833,980)	(38,678,712)
Payments for interfund services used	(24,324,537)	(24,684,143)	(16,023,163)	(16,279,698)	(17,538,437)
Other receipts (payments)	678,277	400,350	728,732	662,912	701,060
	<hr/>				
Net cash provided by operating activities	62,919,376	79,812,950	76,762,522	85,915,824	95,773,771
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers in	140,008	159,692	-	16,999	35,000
Transfers out	(486,037)	(462,762)	(634,050)	(626,103)	(656,592)
	<hr/>				
Net cash provided (used) by noncapital financing activities	(346,029)	(303,070)	(634,050)	(609,104)	(621,592)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sale of bonds and notes	282,195	330,292,336	-	84,975,000	-
Premium on bonds and notes issued	-	37,517,171	-	7,642,900	-
Sale of capital/fixed assets	362,967	1,040,220	875,747	269,973	168,633
Acquisition of capital assets	(83,482,890)	(138,305,575)	(132,709,964)	(94,068,304)	(68,379,995)
Principal paid on bonds, notes and capital leases	(14,919,219)	(124,930,858)	(23,282,989)	(26,582,115)	(26,376,616)
Interest paid on bonds, notes and capital leases	(15,743,004)	(22,881,244)	(17,511,810)	(22,677,893)	(25,292,067)
Bond issuance costs	-	(1,385,515)	-	(252,949)	-
	<hr/>				
Net cash provided (used) by capital related financing activities	(113,499,951)	81,346,535	(172,629,016)	(50,693,388)	(119,880,045)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest on investments	657,939	295,599	1,555,816	831,393	1,768,016
	<hr/>				
Net increase (decrease) in cash and cash equivalents	(50,268,665)	161,152,014	(94,944,728)	35,444,725	(22,959,850)
CASH AND CASH EQUIVALENTS					
July 1 (Beginning)	130,779,965	80,511,300	241,663,314	146,718,586	182,163,311
	<hr/>				
June 30 (Ending)	\$ 80,511,300	\$ 241,663,314	\$ 146,718,586	\$ 182,163,311	\$ 159,203,461
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Reconciliation of Cash and Cash Equivalents to the Statements of Net Position:					
Unrestricted cash and cash equivalents	\$ 64,626,887	\$ 67,487,424	\$ 80,318,903	\$ 86,861,714	\$ 109,603,859
Restricted cash and cash equivalents	15,884,413	174,175,890	66,399,683	95,301,597	49,599,602
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Total cash and cash equivalents	\$ 80,511,300	\$ 241,663,314	\$ 146,718,586	\$ 182,163,311	\$ 159,203,461
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CITY OF PORTLAND, OREGON
Water Fund
Statement of Cash Flows (continued)
For Fiscal Years Ended June 30

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Reconciliation of operating income (loss) to net cash provided by operating activities					
Operating income (loss)	\$ 38,055,414	\$ 54,712,255	\$ 51,253,967	\$ 77,122,026	\$ 51,622,821
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization of capital assets	22,290,243	22,804,040	25,870,266	25,747,919	29,029,736
Provision for uncollectible accounts	845,671	735,006	884,247	627,617	624,974
Nonoperating revenue	585,623	237,696	714,716	645,633	699,409
Change in assets and liabilities:					
Accounts and contracts receivable	(5,023,396)	(336,559)	797,894	4,234,000	6,099,471
Inventories	583,344	(239,844)	(60,007)	(287,131)	27,908
Accounts payable	5,351,950	1,003,744	(3,168,454)	(1,226,340)	(3,709,900)
Self insurance claims	-	-	-	-	1,126,921
Compensated absences	242,197	23,360	7,392	(48,447)	161,190
Due from (to) other funds	-	372,708	-	-	8,175
Unearned revenue	44,631	(10,483)	31,293	(8,037)	80,470
Net pension liability	-	-	-	-	25,103,554
Other liabilities	(199,413)	(39,753)	-	-	134,138
Pollution remediation	-	392,000	391,000	(233,000)	170,000
Accrued other postemployment benefits	143,112	158,780	40,208	51,977	(9,784)
Deferred outflows - pensions	-	-	-	(3,301,241)	(2,605,528)
Deferred inflows - pensions	-	-	-	20,102,011	(12,789,784)
Restatement per GASB 68 implementation	-	-	-	(37,511,163)	-
Net cash provided by operating activities	<u>\$ 62,919,376</u>	<u>\$ 79,812,950</u>	<u>\$ 76,762,522</u>	<u>\$ 85,915,824</u>	<u>\$ 95,773,771</u>
Noncash information					
Non-operating prepaid PERS amortization	(1,167,583)	(1,167,583)	(1,167,583)	-	-
Capital contribution	784,017	536,303	197,470	499,708	222,790
Other	(16,855,522)	-	-	-	272
Increase in fair value of investments (classified as cash equivalents)	(177,859)	(470,507)	483,009	(16,628)	478,555

Source: City of Portland. Audited financial statements.

