

**NEW ISSUE—COMPETITIVE via PDXAuction.com
BOOK-ENTRY ONLY**

**RATINGS: Moody's Aaa
Standard & Poor's AAA
(MBIA-Insured)**

In the opinion of Preston Gates & Ellis LLP, Portland, Oregon, Bond Counsel, assuming compliance with certain covenants of the City, interest on the 2006 Bonds is excluded from the gross income of the owners of the 2006 Bonds for federal income tax purposes under existing law. Interest on the 2006 Bonds is not an item of tax preference for purposes of either individual or corporate alternative minimum tax. Interest on the 2006 Bonds may be indirectly subject to corporate alternative minimum tax and certain other taxes imposed on certain corporations. See "TAX EXEMPTION" and "OTHER FEDERAL TAX MATTERS" herein for a discussion of the opinion of Bond Counsel. In the opinion of Bond Counsel, interest on the 2006 Bonds is exempt from Oregon personal income tax and is also exempt from personal income taxation by Multnomah County, Oregon, under existing law.

City of Portland Oregon

\$177,845,000

**First Lien Sewer System Revenue Bonds
2006 Series A**

\$87,135,000

**Second Lien Sewer System Revenue Bonds
2006 Series B**

BASE CUSIP: 736742

DATED: Date of Delivery

DUE: As shown on inside cover

The First Lien Sewer System Revenue Bonds, 2006 Series A (the "2006 Series A Bonds") and the Second Lien Sewer System Revenue Bonds, 2006 Series B (the "2006 Series B Bonds"), (collectively, the "2006 Bonds") will be issued in registered book-entry form only, in denominations of \$5,000 or integral multiples thereof. The 2006 Bonds, when executed and delivered, will be registered in the name of Cede & Co., as the registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2006 Bonds. While Cede & Co. is the registered owner of the 2006 Bonds (the "Owner") as nominee of DTC, references herein to the Bondowners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the 2006 Bonds. See "BEO System" herein.

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

The 2006 Bonds will bear or accrue interest rates as set forth on the inside cover. The 2006 Bonds will be dated as of the Date of Delivery. Interest on the 2006 Bonds will be payable semiannually on June 15 and December 15 of each year, beginning December 15, 2006.

The scheduled payment of principal of and interest on each series of 2006 Bonds when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the 2006 Bonds by the MBIA Insurance Corporation.



The 2006 Bonds being offered pursuant to this Official Statement are being issued to finance certain capital facilities and improvements to the sanitary sewer and stormwater drainage system (the "System" or "Sewer System") owned and operated by the City, to pay the premium for a municipal bond insurance policy and a municipal bond debt service reserve insurance policy, and to pay the costs of issuance of the 2006 Bonds. See "THE 2006 BONDS – Sources and Uses of Proceeds" herein.

The 2006 Series A Bonds are secured by a first lien on, and are payable solely from, the Net Revenues and amounts required to be deposited in the Debt Service Account and Reserve Account as provided in City Ordinance No. 160276, as amended, supplemented and clarified by subsequent ordinances (the "First Lien Bond Ordinance"). See "SECURITY FOR THE 2006 SERIES A BONDS" herein. The 2006 Series B Bonds are secured by a subordinate lien on, and are payable solely from, the Net Revenues and amounts required to be deposited in the Second Lien Bond Account and Second Lien Revenue Bond Reserve Account as provided in the Master Second Lien Sewer Revenue Bond Declaration (the "Master Second Lien Bond Declaration"). The lien of the pledge that secures the 2006 Series B Bonds is subordinate to the lien on the Sewer System revenues that secures the First Lien Bonds, including the 2006 Series A Bonds, that the City has issued, and may issue in the future, under the First Lien Bond Ordinance. See "SECURITY FOR THE 2006 SERIES B BONDS" herein. The 2006 Bonds do not constitute general obligations of the City, and neither the full faith and credit nor the taxing power of the City is pledged for the payment of the principal of, premium (if any), or interest on the 2006 Bonds. No recourse may be had against any funds or assets of the City (other than the Net Revenues of the Sewer System and the accounts described in this paragraph) to enforce payment of any amounts owing under or with respect to the 2006 Bonds.

The 2006 Bonds are subject to redemption prior to maturity. See "OPTIONAL REDEMPTION OF 2006 BONDS" and "MANDATORY REDEMPTION OF 2006 BONDS" herein.

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

The 2006 Bonds are offered when, as and if issued by the City and accepted by the successful bidder, subject to prior sale, withdrawal or modification of the offer without notice, to the final approving opinion of Preston Gates & Ellis LLP, Bond Counsel, Portland, Oregon, and to certain other conditions. The City expects that the 2006 Bonds will be available for delivery through the facilities of DTC in New York, New York on or about May 25, 2006.

Official Statement Dated May 16, 2006

MATURITY SCHEDULES

\$177,845,000

FIRST LIEN SEWER SYSTEM REVENUE BONDS 2006 SERIES A

<u>Due June 15</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP No. 736742</u>	<u>Due June 15</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP No. 736742</u>
2007	\$3,350,000	5.000%	3.65%	MH 7	2019	\$6,820,000	4.500%	4.45% †	MV 6
2008	3,985,000	5.000	3.68	MJ 3	2020	7,125,000	4.500	4.51	MW 4
2009	4,185,000	5.000	3.70	MK 0	2021	7,445,000	4.625	4.53 †	MX 2
2010	4,395,000	5.000	3.75	ML 8	2022	7,790,000	4.625	4.58 †	MY 0
2011	4,615,000	5.000	3.80	MM 6	2023	8,150,000	4.750	4.56 †	MZ 7
2012	4,845,000	5.000	3.86	MN 4	2024	8,535,000	4.750	4.60 †	NA 1
2013	5,090,000	5.000	3.97	MP 9	2025	8,945,000	4.750	4.63 †	NB 9
2014	5,340,000	5.000	4.07	MQ 7	2026	9,370,000	4.750	4.66 †	NC 7
2015	5,610,000	5.000	4.13	MR 5	2027	9,810,000	4.500	4.65	ND 5
2016	5,890,000	5.000	4.17	MS 3	2028	10,255,000	4.500	4.68	NE 3
2017	6,185,000	5.000	4.25 †	MT 1	2029	10,715,000	4.500	4.70	NF 0
2018	6,495,000	5.000	4.30 †	MU 8					

\$22,900,000 4.500% 2006 Series A Term Bonds due June 15, 2031; Yield 4.74%
CUSIP Number 736742NH6

\$87,135,000

SECOND LIEN SEWER SYSTEM REVENUE BONDS 2006 SERIES B

<u>Due June 15</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP No. 736742</u>	<u>Due June 15</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP No. 736742</u>
2007	\$1,605,000	5.00%	3.65%	NJ 2	2018	\$3,135,000	5.00%	4.27% †	NV 5
2008	1,925,000	5.00	3.70	NK 9	2019	3,290,000	5.00	4.31 †	NW 3
2009	2,020,000	5.00	3.69	NL 7	2020	3,455,000	5.00	4.35 †	NX 1
2010	2,120,000	5.00	3.72	NM 5	2021	3,625,000	5.00	4.38 †	NY 9
2011	2,225,000	5.00	3.76	NN 3	2022	3,810,000	5.00	4.41 †	NZ 6
2012	2,340,000	5.00	3.83	NP 8	2023	4,000,000	5.00	4.43 †	PA 9
2013	2,455,000	5.00	3.93	NQ 6	2024	4,200,000	5.00	4.45 †	PB 7
2014	2,580,000	5.00	4.03	NR 4	2025	4,410,000	5.00	4.47 †	PC 5
2015	2,705,000	5.00	4.11	NS 2	2026	4,630,000	5.00	4.49 †	PD 3
2016	2,840,000	5.00	4.19	NT 0	2027	4,860,000	5.00	4.51 †	PE 1
2017	2,985,000	5.00	4.22 †	NU 7	2028	5,105,000	5.00	4.52 †	PF 8

\$16,815,000 4.500% 2006 Series B Term Bonds due June 15, 2031; Yield 4.74%
CUSIP Number 736742PJ0

† Priced to call on June 15, 2016.

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

**\$177,845,000
First Lien Sewer System
Revenue Bonds
2006 Series A**

**\$87,135,000
Second Lien Sewer System
Revenue Bonds
2006 Series B**

CITY COUNCIL

Tom Potter,
Mayor and Commissioner of Finance and Administration

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

CITY OFFICIALS

Gary Blackmer, City Auditor
David E. Thurman, City Treasurer
Linda Meng, City Attorney
Timothy Grewe, Chief Administrative Officer
Kenneth L. Rust, Chief Financial Officer

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BOND COUNSEL

Preston Gates & Ellis LLP
Portland, Oregon

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

This Official Statement speaks only as of its date, and the information contained herein is subject to change without notice. All estimates and assumptions set forth herein have been made on the best information available and are believed to be reliable, but no representations whatsoever are made that such estimates and assumptions are correct. So far as any statements herein involve any matters of opinion, whether or not expressly so stated, they are intended merely as such and are not representations of fact.

This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of, the 2006 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The 2006 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon a specific exemption contained in such act, nor have the 2006 Bonds been registered under the securities laws of any state.

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

In connection with this offering, the successful bidder may over allot or effect transactions which stabilize or maintain the market price of the 2006 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued, and if discontinued, then recommenced, at any time.

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OFFICIAL STATEMENT
OF THE
CITY OF PORTLAND, OREGON
RELATED TO
CITY OF PORTLAND, OREGON

\$177,845,000
First Lien Sewer System
Revenue Bonds
2006 Series A

\$87,135,000
Second Lien Sewer System
Revenue Bonds
2006 Series B

INTRODUCTION

The purpose of this Official Statement is to set forth certain information concerning the City of Portland, Oregon (the “City”), the municipally-owned sewer and stormwater drainage system of the City (the “System” or “Sewer System”), and the City’s First Lien Sewer System Revenue Bonds, 2006 Series A (the “2006 Series A Bonds”) and Second Lien Sewer System Revenue Bonds, 2006 Series B (the “2006 Series B Bonds”) (collectively, the “2006 Bonds”), dated as of the Date of Delivery.

The 2006 Series A Bonds are secured by a first lien on, and are payable solely from, the Net Revenues and amounts required to be deposited in the Debt Service Account and Reserve Account as provided in City Ordinance No. 160276, as amended, supplemented and clarified by subsequent ordinances (the “First Lien Bond Ordinance”). The 2006 Series A Bonds are issued on parity with outstanding obligations and future borrowings issued under the First Lien Bond Ordinance (collectively referred to herein as the “First Lien Bonds”).

The 2006 Series B Bonds are secured by a subordinate lien on, and are payable solely from, the Net Revenues and amounts required to be deposited in the Second Lien Bond Account and Second Lien Revenue Bond Reserve Account as provided in the Master Second Lien Sewer Revenue Bond Declaration (the “Master Second Lien Bond Declaration”). The 2006 Series B Bonds are issued on parity with outstanding obligations and future borrowings issued under the Master Second Lien Bond Declaration (collectively, referred to herein as the “Second Lien Bonds”). The lien of and pledge that secures the Second Lien Bonds is subordinate to the lien on the Sewer System revenues that secures the First Lien Bonds, including the 2006 Series A Bonds, that the City has issued, and may issue in the future, under the First Lien Bond Ordinance.

The 2006 Bonds will be sold in accordance with City Ordinance No. 180048 (the “Ordinance”) adopted by the City Council on April 12, 2006. The Ordinance authorizes the Debt Manager to execute one or more 2006 bond declarations to specify the terms under which the 2006 Bonds are issued and the administrative provisions that apply to the 2006 Bonds, and to provide any covenants that apply to the 2006 Bonds that are not contained in the First Lien Bond Ordinance, the Master Second Lien Bond Declaration, or the Ordinance.

The body of this Official Statement briefly summarizes many of the provisions of the First Lien Bond Ordinance and the Master Second Lien Bond Declaration and does not purport to be complete. Reference is made to Appendix A (Summary of Principal Provisions of the First Lien Bond Ordinance) and Appendix B (Provisions of the Master Second Lien Sewer Revenue Bond Declaration that Apply to All Second Lien Bonds).

THE 2006 BONDS

DESCRIPTION

The 2006 Bonds are special obligations of the City, payable solely from the Net Revenues of the City's Sewer System and certain dedicated accounts, as more fully described herein. The 2006 Bonds do not constitute a general obligation of the City, and neither the full faith and credit nor the taxing power of the City is pledged for payment of principal of, or premium, if any, or interest on the 2006 Bonds. No recourse may be had against any funds or assets of the City (other than the Net Revenues of the Sewer System and the dedicated accounts) to enforce payment of any amounts owing under or with respect to the 2006 Bonds.

AUTHORIZATION AND PURPOSE

The 2006 Bonds are being issued pursuant to the authority conferred by Oregon Revised Statutes 288.805 to 288.945 (inclusive) (the "Uniform Revenue Bond Act" or the "Act"), which permits the City to authorize revenue bonds for any lawful purpose by enacting an ordinance that is subject to referendum. The 2006 Bonds were authorized by City Ordinance No. 179918; that ordinance was subject to referendum, was not referred, and the period for referring that ordinance is past. City Ordinance No. 180048 (the "Ordinance") directs the City to sell the 2006 Bonds.

The 2006 Bonds are being issued to fund capital improvements to the City's Sewer System including projects related to the following programs:

- Sewage Treatment Systems,
- Maintenance and Reliability,
- Stormwater and Drainwater Quality,
- Combined Sewer Overflow, and
- System Development.

Additionally, proceeds of the 2006 Bonds will be used to pay the premium for a municipal bond insurance policies and municipal bond debt service reserve insurance policies, and to pay costs of issuance. (See "Estimated Sources and Uses of Proceeds" herein.)

FORM

The 2006 Bonds will be issued in fully-registered book-entry only form without coupons in denominations of \$5,000 or integral multiples thereof. The 2006 Bonds will be issued subject to the BEO System of registration, transfer and payment operated by The Depository Trust Company, New York, New York ("DTC"), and will be subject in all respects to the rules, regulations and agreements pertaining to such BEO System. In accordance with the BEO System, the 2006 Bonds, when executed and delivered, will be registered in the name of Cede & Co., as registered owner and nominee for DTC. One fully-registered bond certificate will be issued for each maturity of the 2006 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

Purchasers of the 2006 Bonds who are the Beneficial Owners thereof will not receive certificates evidencing their ownership interests in the 2006 Bonds. While Cede & Co. is the registered owner of the 2006 Bonds (in such capacity, the "Owner") as nominee of DTC, it shall be treated in all respects as the sole Owner of the 2006 Bonds and shall have the right to exercise (in lieu of the Beneficial Owners of the 2006 Bonds) all rights as Owner, including but not limited to the right to give consents, the right to receive notices (including notices of redemption), and other rights conferred on owners of the 2006 Bonds under the Ordinance or applicable law. So long as the 2006 Bonds are subject to the BEO System, all registrations and transfers of beneficial ownership of the 2006 Bonds will be made only through the BEO System. (See Appendix F for a discussion of the BEO System.)

MATURITY AND PAYMENT

The 2006 Bonds mature on June 15 of the years and in the aggregate principal amounts set forth on the inside cover page of this Official Statement and will bear interest from the Date of Delivery. Accrued and unpaid interest on the 2006 Bonds will be due and payable semiannually on June 15 and December 15 of each year, commencing December 15, 2006.

So long as the 2006 Bonds are subject to the BEO System, all payments of the principal of and interest on the 2006 Bonds shall be remitted by the Registrar and Paying Agent, currently U.S. Bank National Association (the "Paying Agent") directly to DTC. DTC, in turn, will be required to distribute such payments to DTC Participants, and the DTC Participants will be responsible for ultimate distribution of such payments to the Beneficial Owners of the 2006 Bonds. The City has no responsibility for the distribution of any

payments on the 2006 Bonds by DTC to any DTC Participant or by any DTC Participant to any Beneficial Owner, and shall have no liability whatsoever in the event of any failure by DTC or a DTC Participant to make any such distribution. See "BOOK-ENTRY SYSTEM" in Appendix F herein.

OPTIONAL REDEMPTION OF 2006 BONDS

The 2006 Bonds are subject to redemption prior to maturity in whole or in part at the option of the City on any date on or after June 15, 2016, in any order of maturity and by lot within a maturity, any such redemption to be at a price equal to 100.00% of the principal amount to be redeemed, plus accrued and unpaid interest thereon to the date fixed for redemption.

In the case of any redemption of less than all of the outstanding 2006 Bonds, the City shall have the right to specify the particular maturities to be redeemed and the aggregate principal amounts of each such maturity to be redeemed.

Selection of 2006 Bonds for Redemption

While the 2006 Bonds are subject to the BEO System, if less than all the outstanding 2006 Bonds of a particular maturity are to be redeemed, DTC will select the particular 2006 Bonds in accordance with its customary practices.

Notice of Redemption

While the 2006 Bonds are subject to the BEO System, notice of any redemption shall be given by the Paying Agent only to DTC in accordance with the agreement entered into among the City, the Paying Agent and DTC. It shall be the sole responsibility of DTC to give all notices of redemption to DTC Participants, and the DTC Participants, in turn, shall be responsible for giving such notices to the Beneficial Owners. Neither the City nor the Paying Agent will be responsible for giving any notice of redemption to any Beneficial Owner or any DTC Participant, nor shall the City or the Paying Agent be liable for any failure of DTC or any DTC Participant to give any such notice as described above.

Effect of Redemption

If notice of redemption is given by the Paying Agent to DTC as described above and if, on or before the date fixed for redemption, the City has deposited or caused to be deposited with the Paying Agent moneys sufficient to pay the redemption price of the 2006 Bonds called for redemption on such date, then from and after the date fixed for redemption, interest shall cease to accrue on the 2006 Bonds so called for redemption, such 2006 Bonds will no longer be secured by the pledge of the Net Revenues or be outstanding under or entitled to the benefits of the First Lien Bond Ordinance or the Master Second Lien Bond Declaration, and the Owners of such 2006 Bonds shall be restricted to the funds held by the Paying Agent (or transmitted by the Paying Agent to DTC) for the payment of the redemption price of such 2006 Bonds.

MANDATORY REDEMPTION OF 2006 BONDS

2006 Series A Bonds

The 2006 Series A Bonds maturing on June 15, 2031, are subject to mandatory redemption on June 15 in each of the years and in the principal amounts set forth in the following table, such redemption to be at a price equal to 100 percent of the principal amount to be redeemed plus accrued interest to the date fixed for redemption. The 2006 Series A Bonds to be redeemed on each such date shall be selected by lot.

<u>Redemption Dates</u>	<u>Principal Amount</u>
<u>June 15</u>	<u>to be Redeemed</u>
2030	\$11,200,000
2031	11,700,000*

*Final Maturity

2006 Series B Bonds

The 2006 Series B Bonds maturing on June 15, 2031, are subject to mandatory redemption on June 15 in each of the years and in the principal amounts set forth in the following table, such redemption to be at a price equal to 100 percent of the principal amount to be redeemed plus accrued interest to the date fixed for redemption. The 2006 Series B Bonds to be redeemed on each such date shall be selected by lot.

Redemption Dates June 15	Principal Amount to be Redeemed
2029	\$5,360,000
2030	5,600,000
2031	5,855,000*

*Final Maturity

ESTIMATED SOURCES AND USES OF BOND PROCEEDS

The anticipated uses of proceeds from the 2006 Bonds are itemized in the following table:

**Table 1
CITY OF PORTLAND, OREGON
Estimated Sources and Uses of 2006 Bond Proceeds**

	2006 Series A	2006 Series B
<u>Sources of Funds</u>		
Par amount of bonds	\$177,845,000.00	\$87,135,000.00
Original issue premium	2,153,659.40	2,864,187.55
TOTAL SOURCES	\$179,998,659.40	\$89,999,187.55
<u>Uses of Funds</u>		
Deposit to construction fund	\$178,919,542.71	\$89,349,074.36
Underwriter's discount	177,116.69	198,113.19
Costs of issuance (1)	902,000.00	452,000.00
TOTAL USES	\$179,998,659.40	\$89,999,187.55

Notes:

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

Source: City of Portland.

The following table presents the debt service on the 2006 Bonds.

Table 2
CITY OF PORTLAND, OREGON
Debt Service on the 2006 Bonds

Fiscal Year Ending 30-Jun	2006 Series A			2006 Series B		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$3,350,000	\$8,876,688	\$12,226,688	\$1,605,000	\$4,510,046	\$6,115,046
2008	3,985,000	8,241,994	12,226,994	1,925,000	4,192,425	6,117,425
2009	4,185,000	8,042,744	12,227,744	2,020,000	4,096,175	6,116,175
2010	4,395,000	7,833,494	12,228,494	2,120,000	3,995,175	6,115,175
2011	4,615,000	7,613,744	12,228,744	2,225,000	3,889,175	6,114,175
2012	4,845,000	7,382,994	12,227,994	2,340,000	3,777,925	6,117,925
2013	5,090,000	7,140,744	12,230,744	2,455,000	3,660,925	6,115,925
2014	5,340,000	6,886,244	12,226,244	2,580,000	3,538,175	6,118,175
2015	5,610,000	6,619,244	12,229,244	2,705,000	3,409,175	6,114,175
2016	5,890,000	6,338,744	12,228,744	2,840,000	3,273,925	6,113,925
2017	6,185,000	6,044,244	12,229,244	2,985,000	3,131,925	6,116,925
2018	6,495,000	5,734,994	12,229,994	3,135,000	2,982,675	6,117,675
2019	6,820,000	5,410,244	12,230,244	3,290,000	2,825,925	6,115,925
2020	7,125,000	5,103,344	12,228,344	3,455,000	2,661,425	6,116,425
2021	7,445,000	4,782,719	12,227,719	3,625,000	2,488,675	6,113,675
2022	7,790,000	4,438,388	12,228,388	3,810,000	2,307,425	6,117,425
2023	8,150,000	4,078,100	12,228,100	4,000,000	2,116,925	6,116,925
2024	8,535,000	3,690,975	12,225,975	4,200,000	1,916,925	6,116,925
2025	8,945,000	3,285,563	12,230,563	4,410,000	1,706,925	6,116,925
2026	9,370,000	2,860,675	12,230,675	4,630,000	1,486,425	6,116,425
2027	9,810,000	2,415,600	12,225,600	4,860,000	1,254,925	6,114,925
2028	10,255,000	1,974,150	12,229,150	5,105,000	1,011,925	6,116,925
2029	10,715,000	1,512,675	12,227,675	5,360,000	756,675	6,116,675
2030	11,200,000	1,030,500	12,230,500	5,600,000	515,475	6,115,475
2031	11,700,000	526,500	12,226,500	5,855,000	263,475	6,118,475
Total	\$177,845,000	\$127,865,300	\$305,710,300	\$87,135,000	\$65,770,846	\$152,905,846

Source: City of Portland.

PROVISIONS OF THE 2006 BONDS

The purpose of this section of this Official Statement is to set forth certain information concerning the City's 2006 Series A Bonds and 2006 Series B Bonds. The 2006 Series A Bonds are First Lien Bonds issued under the First Lien Bond Ordinance. See APPENDIX A herein for the principal provisions of the First Lien Bond Ordinance and definitions of terms used in relation to the 2006 Series A Bonds. The 2006 Series B Bonds are Second Lien Bonds issued under the Master Second Lien Bond Declaration. See APPENDIX B herein for the provisions of the Master Second Lien Sewer Revenue Bond Declaration that apply to all Second Lien Bonds and definitions of terms used in relation to the 2006 Series B Bonds.

The body of this section of this Official Statement only contains summaries of the provisions of the First Lien Bond Ordinance and the Master Second Lien Bond Declaration; to understand the terms of those documents, readers must review the entire documents, copies of which are attached as APPENDIX A and APPENDIX B. The final documents related to the 2006 Bonds will have the interest rates, payment, defeasance, and other terms of the 2006 Bonds added after the 2006 Bonds are sold. If the 2006 Bonds are sold with bond insurance or reserve equivalents, the supplemental declarations issued with respect to the 2006 Bonds may be amended with the consent of the bond insurer and without consent of the owners of the 2006 Bonds, and the supplemental declarations may also have other provisions added at the request of the insurer or reserve equivalent providers of the 2006 Bonds.

SPECIAL OBLIGATION; PLEDGE OF NET REVENUES

The 2006 Series A Bonds are special obligations of the City secured by a first pledge of and lien on, and payable solely from, the Net Revenues of the Sewer System on an equal and ratable (parity) basis with the Outstanding Parity Obligations issued pursuant to the First Lien Bond Ordinance and any additional Parity Obligations that may hereafter be issued pursuant to the First Lien Bond Ordinance.

The 2006 Series B Bonds are special obligations of the City secured by a pledge of and lien on, and payable solely from, the Net Revenues of the Sewer System and amounts required to be deposited in the Second Lien Bond Account and Second Lien Bond Reserve Account pursuant to the Master Second Lien Bond Declaration. The lien of the pledge that secures the 2006 Series B Bonds is subordinate to the lien on the Sewer System revenues that secures the First Lien Bonds, including the 2006 Series A Bonds, but shall otherwise be superior to all other claims and liens except liens and claims for the payment of Operating Expenses.

The 2006 Bonds do not constitute general obligations of the City, and neither the full faith and credit nor the taxing powers of the City is pledged for the payment of the principal of, premium (if any) or interest on the 2006 Bonds. No recourse may be had against any funds or assets of the City (other than the Net Revenues of the System) to enforce payment of any amounts owing under or with respect to the 2006 Bonds.

Under ORS 288.594, if a municipality is authorized by statute, or municipal charter to pledge its revenues, the pledge is valid and binding from the time the pledge is made, the revenues so pledged are immediately subject to the lien of such pledge without physical delivery, filing or other act, and the lien of such pledge is superior to all other claims and liens of any kind whatsoever. The Uniform Revenue Bond Act pursuant to which the 2006 Bonds are being issued authorizes such a pledge.

RATE COVENANTS

First Lien Bond Rate Covenant

The City covenants for the benefit of the owners of the First Lien Bonds, including the 2006 Series A Bonds, that it will authorize, bill and collect fees and charges for the use of the Sewer System and operate the Sewer System so as to produce Gross Revenues in such amounts that, after the funding of Operating Expenses for each fiscal year in amounts sufficient to allow the City to be in compliance with its covenants, standards and requirements relating to the operation and maintenance of the Sewer System, at least meet the following requirements:

- Net Revenues (without adjustment for payments to or withdrawals from the Rate Stabilization Fund) in each fiscal year are projected to be at least equal to the sum of all payments due under any Reserve Equivalent, plus all debt service due on outstanding First Lien Bonds (including the proposed 2006 Series A Bonds) in that fiscal year; and
- Net Revenues (after adjustments for payments to and withdrawals from the Rate Stabilization Fund) in each fiscal year are projected to be at least equal to the sum of all payments due under any Reserve Equivalent, plus 1.20 times the debt service due on all outstanding First Lien Bonds (including the proposed 2006 Series A Bonds) in that fiscal year. See "RATE STABILIZATION FUND" below.

If Net Revenues in a fiscal year are insufficient to meet the requirements of the Rate Covenant, the City has covenanted with the owners of the 2006 Series A Bonds to increase its fees such that the Net Revenues are projected to meet the required level.

Second Lien Bond Rate Covenant

The City covenants for the benefit of the Owners of the Second Lien Bonds, including the 2006 Series B Bonds, that it will establish and maintain rates and charges in connection with the operation of the Sewer System which are sufficient to permit the City to pay all Operating Expenses and all lawful charges against the Net Revenues, and to make all transfers required by the Master Second Lien Bond Declaration to the Second Lien Bond Account, the Second Lien Bond Reserve Account and the Subordinate Obligations Account, and to pay any franchise fees or similar charges imposed by the City on the Sewer System or its operations.

Additionally, the City covenants for the benefit of the Owners of all Second Lien Bonds:

- (1) that it shall charge rates and fees in connection with the operation of the Sewer System which, when combined with other Gross Revenues, but without regard to transfers from and to the Rate Stabilization Fund, are adequate to generate Net Revenues each Fiscal Year at least equal to one hundred percent (100.00%) of the Combined Annual Debt Service, which is the sum of: (a) the amount of any required transfers to the First Lien Bond Reserve Account, (b) the amount of principal of and interest on First Lien Bonds required to be paid in that Fiscal Year, (c) the amount of any required transfers to the Second Lien Bond Reserve Account, and (d) the amount of principal of and interest on all Outstanding Second Lien Bonds required to be paid in that Fiscal Year.
- (2) that it shall charge rates and fees in connection with the operation of the Sewer System which, when combined with other Gross Revenues, are adequate to generate Net Revenues each Fiscal Year at least equal to one hundred ten percent (110.00%) of Combined Annual Debt Service due in that Fiscal Year.

The City shall determine whether it complied with the rate covenants for each Fiscal Year not later than 60 days after the beginning of the subsequent Fiscal Year based on the financial information available to the City at the time, and compliance with the rate covenants shall be determined based on that financial information. It shall not constitute an Event of Default if the City fails to comply with the rate covenants as long as, within 120 days after the beginning of the subsequent Fiscal Year, the City implements the recommendations of a Qualified Consultant that is engaged by the City to deliver written recommendations for a schedule of rates and charges or other actions which the Qualified Consultant reasonably projects will permit the City to comply with the rate covenants for the remainder of the Fiscal Year in which the recommendations are delivered to the City (with calculations for the partial year made on an annualized basis).

FUNDS AND ACCOUNTS

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

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

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

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

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

Additionally, the Rate Stabilization Fund is created by the First Lien Bond Ordinance. Net Revenues may be transferred to the Rate Stabilization Fund at the option of the City as permitted by the First Lien Bond ordinance and the Master Second Lien Bond

Declaration, and may be withdrawn at any time and used for any purpose for which the Gross Revenues may be used. (See “Rate Stabilization Fund” below.)

APPLICATION OF GROSS REVENUES

As long as any 2006 Bonds remain issued and outstanding, the First Lien Bond Ordinance and the Master Second Lien Bond Declaration provide that Gross Revenues shall be used solely to pay the following amounts in the following order of priority:

1. To pay Operating Expenses of the Sewer System which are then due (other than payments to the Rate Stabilization Fund) and any rebate of earnings on nonpurpose obligations in which the gross proceeds of First Lien Bonds are invested which is required to be paid under Section 148(f) of the Internal Revenue Code of 1986, as amended;
2. To make payments to the First Lien Bond Debt Service Account in an amount sufficient to make timely payment of all First Lien Bond principal and interest when due, as required by Section 1.G.(2) of the First Lien Bond Ordinance;
3. To make any payment required under a Reserve Equivalent as required by the First Lien Bond Ordinance, including any amounts due under a financial guaranty or other agreement executed in connection therewith;
4. To make payments to the First Lien Bond Reserve Account in accordance with a schedule specified Section 1.G.(3)(ii) of the First Lien Bond Ordinance;
5. To make payments to the Second Lien Bond Account in an amount sufficient (with amounts available in the Second Lien Bond Account) to pay in full all Second Lien Bond principal, interest and premium, if any, which is due as required by the Master Second Lien Bond Ordinance;
6. To make payments to the Second Lien Bond Reserve Account in accordance with a schedule specified in Section 3.3.K of the Master Second Lien Bond Ordinance;
7. On the first day of each month following a Valuation Date on which the balance in the Second Lien Bond Reserve Account is determined to be less than the Second Lien Bond Reserve Requirement, to transfer to the Second Lien Bond Reserve Account the amount required by Section 3.3.C and 3.3.D of the Master Second Lien Bond Declaration;
8. To pay any rebates or penalties for Second Lien Bonds when due to be paid to the United States pursuant to Section 148 of the Code;
9. On the dates specified in any proceedings authorizing Subordinate Obligations, if any, the City shall transfer to the Subordinate Obligations Account the Net Revenues required by those proceedings;
10. After all transfers and payments having a higher priority under this Section have been made, Net Revenues shall be applied to any franchise fees and similar charges imposed by the City on the Sewer System or its operations.
11. On any date, the City may transfer Net Revenues to the Rate Stabilization Fund or spend Net Revenues for any other lawful purpose, but only if all deposits and payments having a higher priority under this Section have been made.

RATE STABILIZATION FUND

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

RESERVE ACCOUNTS

Reserve Account for First Lien Bonds

The 2006 Series A Bonds are additionally secured by a pledge of the City to maintain the Reserve Account at a level equal to the Required Reserve (as defined in the First Lien Bond Ordinance) which is the lesser of the maximum annual debt service on all Outstanding Parity Obligations determined as of the date of issuance of any additional Parity Obligations, 125 percent of the average annual debt service on the Outstanding Parity Obligations, or ten percent of the proceeds of all series of sewer system revenue bonds any portion of which is outstanding. Reserve Equivalents are treated as deposits in the Reserve Account. Reserve Equivalents include insurance policies or letters of credit issued respectively by a municipal bond insurance company or a commercial bank. If the balance in the Reserve Account falls below the Required Reserve, the City pledges that the balance will be replenished from Net Revenues in proportionate monthly payments so that the Required Reserve is reestablished within twelve months from the date of any deficiency. The City has previously acquired reserve fund surety bonds qualifying as Reserve Equivalents under the First Lien Bond Ordinance and the related Supplemental Ordinances for each of its previous issues of the Outstanding Parity Obligations. The available amount under each of these Reserve Equivalents is in an amount sufficient to meet the Required Reserve for the issue of Outstanding Parity Obligations to which such Reserve Equivalent relates.

Reserve Equivalent for the 2006 Series A Bonds

Application has been made to the MBIA Insurance Corporation (the "Insurer") for a commitment to issue a surety bond (the "2006 Series A Debt Service Reserve Fund Surety Bond"). The 2006 Series A Debt Service Reserve Fund Surety Bond will provide that upon notice from the Paying Agent to the Insurer to the effect that insufficient amounts are on deposit in the First Lien Bond Debt Service Account to pay the principal of (at maturity or pursuant to mandatory redemption requirements) and interest on the 2006 Series A Bonds, the Insurer will promptly deposit with the Paying Agent an amount sufficient to pay the principal of and interest on the 2006 Series A Bonds or the available amount of the 2006 Series A Debt Service Reserve Fund Surety Bond, whichever is less. Upon the later of: (i) three (3) days after receipt by the Insurer of a Demand for Payment in the form attached to the 2006 Series A Debt Service Reserve Fund Surety Bond, duly executed by the Paying Agent; or (ii) the payment date of the 2006 Series A Bonds as specified in the Demand for Payment presented by the Paying Agent to the Insurer, the Insurer will make a deposit of funds in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment to the Paying Agent, of amounts which are then due to the Paying Agent (as specified in the Demand for Payment) subject to the Surety Bond Coverage.

The available amount of the 2006 Series A Debt Service Reserve Fund Surety Bond is the initial face amount of the 2006 Series A Debt Service Reserve Fund Surety Bond less the amount of any previous deposits by the Insurer with the Paying Agent which have not been reimbursed by the City. The City and the Insurer have entered into a Financial Guaranty Agreement in connection with the 2006 Series A Bonds (the "Agreement"). Pursuant to the Agreement, the City is required to reimburse the Insurer, within one year of any deposit, the amount of such deposit made by the Insurer with the Paying Agent under the 2006 Series A Debt Service Reserve Fund Surety Bond. Such reimbursement shall be made only after all required payments for Operating Expenses and payments to the First Lien Bond Debt Service Account have been made.

Under the terms of the Agreement, the Paying Agent is required to reimburse the Insurer, with interest, until the face amount of the 2006 Series A Debt Service Reserve Fund Surety Bond is reinstated before any deposit is made to the Second Lien Bond Account or any account having a lower priority for allocation of Gross Revenues (see "APPLICATION OF GROSS REVENUES" above). No optional redemption of 2006 Series A Bonds may be made until the Insurer's 2006 Series A Debt Service Reserve Fund Surety Bond is reinstated. The 2006 Series A Debt Service Reserve Fund Surety Bond will be held by the Paying Agent and amounts available to be drawn under the 2006 Series A Debt Service Reserve Fund Surety Bond will be credited to the First Lien Bond Reserve Account. The 2006 Series A Debt Service Reserve Fund Surety Bond is provided as an alternative to the City depositing funds in the First Lien Bond Reserve Account equal to the Required Reserve for outstanding 2006 Series A Bonds. The 2006 Series A Debt Service Reserve Fund Surety Bond will be issued in the face amount equal to Maximum Annual Debt Service for the 2006 Series A Bonds and the premium therefor will be fully paid by the City at the time of delivery of the 2006 Series A Bonds.

Second Lien Bond Reserve Account

The 2006 Series B Bonds are additionally secured by a pledge of the City to fund and maintain, but solely from Second Lien Bond proceeds and Net Revenues, a balance in the Second Lien Bond Reserve Account at least equal to the Second Lien Bond Reserve Requirement for all Outstanding Second Lien Bonds. The Second Lien Bond Reserve Requirement is generally equal to the lesser of Maximum Annual Second Lien Debt Service on all Outstanding Second Lien Bonds or the amount the City was required to maintain in the Second Lien Bond Reserve Account prior to issuing a series of Second Lien Bonds, plus the largest amount of proceeds of tax exempt bonds the City may use to fund a reserve under the Internal Revenue Code of 1986, as amended. The City has reserved the

option to fund the Second Lien Bond Reserve Requirement for any Series of Second Lien Bonds over a five year period following the issuance of such Second Lien Bonds. The balance in the Second Lien Bond Reserve Account includes the amount available to be drawn under a Reserve Credit Facility.

Reserve Credit Facility for the 2006 Series B Bonds

Application has been made to the Insurer for a commitment to issue a surety bond (the “2006 Series B Debt Service Reserve Fund Surety Bond”). The 2006 Series B Debt Service Reserve Fund Surety Bond will provide that upon notice from the Paying Agent to the Insurer to the effect that insufficient amounts are on deposit in the Second Lien Bond Account to pay the principal of (at maturity or pursuant to mandatory redemption requirements) and interest on the 2006 Series B Bonds, the Insurer will promptly deposit with the Paying Agent an amount sufficient to pay the principal of and interest on the 2006 Series B Bonds or the available amount of the 2006 Series B Debt Service Reserve Fund Surety Bond, whichever is less. Upon the later of: (i) three (3) days after receipt by the Insurer of a Demand for Payment in the form attached to the 2006 Series B Debt Service Reserve Fund Surety Bond, duly executed by the Paying Agent; or (ii) the payment date of the 2006 Series B Bonds as specified in the Demand for Payment presented by the Paying Agent to the Insurer, the Insurer will make a deposit of funds in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment to the Paying Agent, of amounts which are then due to the Paying Agent (as specified in the Demand for Payment) subject to the Surety Bond Coverage.

The available amount of the 2006 Series B Debt Service Reserve Fund Surety Bond is the initial face amount of the 2006 Series B Debt Service Reserve Fund Surety Bond less the amount of any previous deposits by the Insurer with the Paying Agent which have not been reimbursed by the City. The City and the Insurer have entered into a Financial Guaranty Agreement in connection with the 2006 Series B Bonds (the “Agreement”). Pursuant to the Agreement, the City is required to reimburse the Insurer, within one year of any deposit, the amount of such deposit made by the Insurer with the Paying Agent under the 2006 Series B Debt Service Reserve Fund Surety Bond. Such reimbursement shall be made only after all required payments for Operating Expenses, required payments for First Lien Bonds, and required payments to the Second Lien Bond Account have been made.

Under the terms of the Agreement, the Paying Agent is required to reimburse the Insurer, with interest, until the face amount of the 2006 Series B Debt Service Reserve Fund Surety Bond is reinstated before any Net Revenues are used to pay rebates on Second Lien Bonds or for any purpose having a lower priority for allocation of Gross Revenues (see “APPLICATION OF GROSS REVENUES” above). No optional redemption of 2006 Series B Bonds may be made until the Insurer’s 2006 Series B Debt Service Reserve Fund Surety Bond is reinstated. The 2006 Series B Debt Service Reserve Fund Surety Bond will be held by the Paying Agent and amounts available to be drawn under the 2006 Series B Debt Service Reserve Fund Surety Bond will be credited to the Second Lien Bond Reserve Account of the Sewage Disposal Fund. The 2006 Series B Debt Service Reserve Fund Surety Bond is provided as an alternative to the City depositing funds in the Second Lien Bond Reserve Account equal to the Second Lien Bond Reserve Requirement for outstanding 2006 Series B Bonds. The 2006 Series B Debt Service Reserve Fund Surety Bond will be issued in the face amount equal to Maximum Annual Debt Service for the 2006 Series B Bonds and the premium therefor will be fully paid by the City at the time of delivery of the 2006 Series B Bonds.

THE MBIA INSURANCE CORPORATION INSURANCE POLICY

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

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Policy and MBIA set forth under the heading “THE MBIA INSURANCE CORPORATION INSURANCE POLICY.” Additionally, MBIA makes no representation regarding the 2006 Bonds or the advisability of investing in the 2006 Bonds.

The MBIA Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the City to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the 2006 Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the MBIA Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the 2006 Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a “Preference”).

MBIA's Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any 2006 Bonds. MBIA's Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of 2006 Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's Policy also does not insure against nonpayment of principal of or interest on the 2006 Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the 2006 Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a 2006 Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such 2006 Bonds or presentment of such other proof of ownership of the 2006 Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the 2006 Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the 2006 Bonds in any legal proceeding related to payment of insured amounts on the 2006 Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such 2006 Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA Insurance Corporation

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

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

Regulation

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

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

Financial Strength Ratings of MBIA

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

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

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

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

The above ratings are not recommendations to buy, sell or hold the 2006 Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an

adverse effect on the market price of the 2006 Bonds. MBIA does not guaranty the market price of the 2006 Bonds nor does it guaranty that the ratings on the 2006 Bonds will not be revised or withdrawn.

MBIA Financial Information

As of December 31, 2004, MBIA had admitted assets of \$10.3 billion (audited), total liabilities of \$7.0 billion (audited), and total capital and surplus of \$3.2 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2005, MBIA had admitted assets of \$11.0 billion (unaudited), total liabilities of \$7.2 billion (unaudited), and total capital and surplus of \$3.8 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

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

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

Incorporation of Certain Documents by Reference

The Company's Annual Report on Form 10-K for the year ended December 31, 2005 filed by the Company with the Securities and Exchange Commission (the "SEC") is incorporated by reference into this Official Statement.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Annual Report on Form 10-K, and prior to the termination of the offering of the 2006 Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

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

PARITY OBLIGATIONS

Additional First Lien Parity Obligations

The First Lien Bond Ordinance permits the City to issue additional Parity Obligations to provide funds for any purpose relating to the Sewer System which is authorized by law, including, but not limited to, financing the construction of new wastewater facilities, repairing and improving existing wastewater facilities, or refunding outstanding bonds. All additional Parity Obligations issued in accordance with the terms and conditions of the First Lien Bond Ordinance will be secured by a first lien on, and will be payable out of, the Net Revenues of the System on an equal and ratable (parity) basis with the 2006 Series A Bonds and the Outstanding Parity Obligations heretofore issued. Among others, the First Lien Bond Ordinance imposes the following conditions that must be met prior to the issuance of any additional Parity Obligations.

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

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

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

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

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

Additional Parity Second Lien Obligations

The City may issue Parity Second Lien Obligations to provide funds for any purpose relating to the Sewer System, but only if no Event of Default under the Master Second Lien Bond Declaration or any Supplemental Declaration has occurred and is continuing; there is no deficiency in the Second Lien Bond Account; the balance in the Second Lien Bond Reserve Account is at least equal to the Second Lien Bond Reserve Requirement; the Supplemental Declaration authorizing the issuance of the Second Lien Bonds contains a covenant requiring the City to charge rates and fees in connection with the operation of the Sewer System in accordance with Section 4.2 of the Master Second Lien Bond Declaration; and there has been filed with the City *either*:

- (1) A certificate of the Debt Manager stating that the Net Revenues (adjusted as provided below) for the Base Period were not less than one hundred ten percent (110.00%) of Maximum Combined Annual Debt Service on all then Outstanding First Lien Bonds and Second Lien Bonds, calculated as of the date the Parity Second Lien Obligations are issued and with the proposed Parity Second Lien Obligations treated as Outstanding; or
- (2) A certificate or opinion of a Qualified Consultant:
 - a. stating the amount of the Adjusted Net Revenues computed as provided below for each of the four Fiscal Years after the last Fiscal Year for which interest on the Parity Second Lien Obligations is, or is expected to be, capitalized, or, if interest will not be capitalized, for each of the four Fiscal Years after the proposed Parity Second Lien Obligations are issued;
 - b. concluding that the respective amounts of Adjusted Net Revenues in each of the Fiscal Years described in 2.a. above are at least equal to one hundred ten percent (110.00%) of the Combined Annual Debt Service for each of those respective Fiscal Years on all Outstanding First Lien Bonds and Second Lien Bonds, with the proposed Parity Second Lien Obligations treated as Outstanding;
 - c. stating the projected amount of the Adjusted Net Revenues for the fifth Fiscal Year after the last Fiscal Year for which interest on the Parity Second Lien Obligations is, or is expected to be, capitalized, or, if interest will not be capitalized, the fifth Fiscal Year after the Parity Second Lien Obligations are issued; and,
 - d. concluding that this amount described in 2.c. above is at least equal to one hundred ten percent (110.00%) of the Maximum Combined Annual Debt Service, calculated for the period beginning with that fifth Fiscal Year on all then Outstanding First Lien Bonds and Second Lien Bonds, with the proposed Parity Second Lien Obligations treated as Outstanding.

Net Revenues may be adjusted for purposes of (1) above by adding any Net Revenues the Debt Manager calculates the City would have had during the Base Period because of increases in Sewer System rates, fees and charges which have been adopted by the City on or before the date the Parity Second Lien Obligations are issued.

For purposes of (2) above, Adjusted Net Revenues shall be computed by adjusting the Net Revenues for the Base Period in any of the ways described in the Master Second Lien Bond Declaration.

The City may issue Parity Second Lien Obligations to refund Outstanding Second Lien Bonds or First Lien Bonds without complying with the foregoing requirements if the refunded Second Lien Bonds or First Lien Bonds are defeased on the date of delivery of the refunding Parity Second Lien Obligations and if the Combined Annual Debt Service on the refunding Parity Second Lien Obligations does not exceed the Combined Annual Debt Service on the refunded Second Lien Bonds or First Lien Bonds (calculated as if the refunded First Lien Bonds were Second Lien Bonds) in any Fiscal Year by more than \$5,000.

All Parity Second Lien Obligations issued in accordance the requirements of the Master Second Lien Bond Declaration shall have a lien on the Net Revenues which is equal to the lien of all other Outstanding Second Lien Bonds.

SUBORDINATE OBLIGATIONS

The City may issue Subordinate Obligations only if the Subordinate Obligations are payable solely from amounts permitted to be deposited in the Subordinate Obligations Account, and the Subordinate Obligations state clearly that they are secured by a lien on or pledge of the Net Revenues which is subordinate to the lien on, and pledge of, the Net Revenues for the First Lien Bonds and the Second Lien Bonds.

OTHER COVENANTS

The City covenants that it will:

1. Promptly cause the principal, premium, if any, and interest on the First Lien Bonds and the Second Lien Bonds to be paid as they become due in accordance with the provisions of the First Lien Bond Ordinance, the Master Second Lien Bond Declaration and any Supplemental Declarations.
2. Maintain complete books and records relating to the operation of the Sewer System and all City funds and accounts in accordance with generally accepted accounting principles, shall cause such books and records to be audited annually at the end of each Fiscal Year, and shall have an audit report prepared by the Auditor and made available for the inspection of the First Lien Bond Owners and the Second Lien Bond Owners.
3. For the benefit of the Owners of the First Lien Bonds, not issue obligations having a claim that is superior to the claim of the First Lien Bonds upon the Net Revenues, except as provided in the First Lien Bond Ordinance.
4. For the benefit of the Owners of the Second Lien Bonds, not issue obligations which have a lien on the Net Revenues that is superior to the lien of the Second Lien Bonds except for First Lien Bonds and obligations to pay Operating Expenses.
5. Not amend the First Lien Bond Ordinance in any way that materially and adversely affects the rights of the Owners of Second Lien Bonds; however, this covenant shall not be construed to limit the ability of the City to issue First Lien Bonds pursuant to the provisions of the First Lien Bond Ordinance.
6. Promptly deposit the Gross Revenues and other amounts into the funds and accounts as required by the First Lien Bond Ordinance and the Master Second Lien Bond Declaration.
7. Cause the Sewer System to be operated at all times in a safe, sound, efficient and economic manner in compliance with all health, safety and environmental laws, regulatory body rules, regulatory body orders and court orders applicable to the City's operation and ownership of the Sewer System.
8. Maintain the Sewer System in good repair, working order and condition.
9. Not enter into any agreement to provide Sewer System products or services at a discount from published rate schedules, and that it will not provide free Sewer System products or services except in case of emergencies.
10. For the benefit of the Owners of the First Lien Bonds, maintain insurance, or a reasonable system of self insurance, appropriate to the risks associated with operation of the Sewer System.

11. For the benefit of Owners of the Second Lien Bonds, self insure the Sewer System or purchase all such insurance on the Sewer System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties, and apply the net proceeds of insurance covering Sewer System damage to the repair or rebuilding of the Sewer System, and to the extent not so applied, to the payment or redemption of the Second Lien Bonds.
12. Not sell, mortgage, lease or otherwise dispose of or encumber all or any portion of the Sewer System except as specifically permitted by the First Lien Bond Ordinance and the Master Second Lien Bond Declaration.

THE SEWER SYSTEM

The City owns, operates and maintains the sanitary and stormwater collection, transportation, and treatment systems within its boundaries. The service area is located on both sides of the Willamette River, extending approximately 20 miles south of its confluence with the Columbia River. It is generally bounded on the west by low-lying hills paralleling the Willamette River, by other service areas serving the City metropolitan area to the south, by the City of Gresham to the east, and by the Columbia River to the north. The City provides sanitary sewer service to approximately 555,000 people, numerous commercial and industrial facilities, and several wholesale contract customers located adjacent to the City.

The following table provides an overview of the Sewer System characteristics:

Table 3
CITY OF PORTLAND, OREGON
Sewer System Characteristics

Service Area (acres)	
In City	85,000
Outside City (wholesale)	9,000
Population Served	555,000
Piping in Sewer System (miles)	2,284
Pumping Stations	91
Treatment Capacity (millions of gallons per day)	108

Source: Bureau of Environmental Services.

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

SANITARY AND STORM COLLECTION SYSTEM

Collection sewers transport wastewater from the receiving point (the curb line) to the point of discharge into the interceptor sewers. Collection sewers comprise most of the footage and economic value of the Sewer System, fronting on most of the property in the City. Older collection sewers carry both storm and sanitary sewage. Collection sewers constructed since 1960 carry sanitary wastes only. Combined sewers comprise approximately 870 miles. The collection system is inspected through the use of closed-circuit TV cameras and cleaned on a routine basis. Sewer System maintenance and repair projects are scheduled according to the results of the inspection program.

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

The basins in North and Northeast Portland typically drain to the Columbia and Willamette Rivers. Some of these basins have highly permeable soils, however, and stormwater in these locations drains to percolation sumps or ponds on the surface and slowly percolates through the ground to underlying soils. Most of the storm runoff in Southeast Portland drains to the Johnson Creek basin, which is the largest basin in the City's Urban Services Boundary, covering an area of approximately 54 square miles.

INTERCEPTOR AND PUMP STATION SYSTEM

Large interceptor sewers, generally paralleling the Willamette River on the east and west, and extending along the south side of the Columbia Slough, are the major sewage-carrying conduits in the Sewer System. Sewer diversions are located at the intersections of combined trunk sewers and interceptor sewers. These diversions were designed with the capacity to direct approximately three times the average dry weather combined sewer flow into the interceptor system. During rainfall, when combined sewage flow exceeds three times the average dry weather flow, a portion of the sewage flow bypasses the diversion structures and discharges directly to the Willamette River and Columbia Slough. These combined sewage overflows (“CSOs”) are discussed more fully below under “REGULATORY AND LEGAL ENVIRONMENT.”

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

SEWAGE TREATMENT PLANTS

The City operates two sewage treatment plants, Columbia Boulevard and Tryon Creek. Both are activated sludge, secondary treatment plants with capacities to treat 100 million gallons per day (“mgd”) and eight mgd, respectively. Under Oregon Administrative Rule (“OAR”) Division 340-45, a National Pollutant Discharge Elimination System (“NPDES”) permit is required for the discharge of treated effluent from each treatment plant. The permits are certified by the Oregon Department of Environmental Quality (“DEQ”), and the City is in compliance with their provisions pertaining to discharge from the treatment plants. The Tryon Creek plant has a current permit with an expiration date of September 30, 2009. The Columbia Boulevard plant discharge permit expired on October 31, 2002. The permit renewal process began with an application for renewal to DEQ approximately six months before expiration. Negotiations determine whether any changes in treatment standards or testing parameters will apply to the renewed permit. This process has taken several years; however, the City believes that the permit will be renewed. A draft of the new permit should be available for public review and comment during the spring of 2006. The Columbia Boulevard plant continues to operate under the current permit during the renewal process.

Dry weather sewage flows to the treatment facilities receive primary and secondary treatment. Average daily flows to both treatment facilities are currently in the range of 76 – 92 mgd, or 70 percent to 85 percent of secondary treatment capacity. Peak secondary treatment capacities at the Columbia Boulevard and Tryon Creek plants are 200 mgd and 20 mgd, respectively. Flows in excess of this amount receive primary treatment and are combined with secondary effluent prior to chlorination and discharge. Wet weather flows exceeding the capacity of the Tryon Creek plant are diverted to the Columbia Boulevard plant.

Recent projects at the Columbia Boulevard plant have focused on enhancing the plant’s peak primary treatment capacity. These projects include replacement of the headworks, completed in 1998, and the addition of three primary clarifiers with a capacity of 120 mgd, completed in 2001. These projects have increased the plant’s primary treatment capacity to 300 mgd in anticipation of increased flows from combined sewer overflow control facilities as they are completed. CSO control facilities on the west side of the Willamette River are scheduled to begin operation in August 2006; operation of these facilities will add roughly 60 million gallons (mg) in peak wet weather flows at the Columbia Boulevard plant, a 22 percent increase over current peak wet weather flows. At completion of the east side CSO facilities, peak wet weather flows at the Columbia Boulevard plant will increase by another 115 million gallons, which represents a 64 percent increase over current levels.

The City’s biosolids recycling program meets applicable United States Environmental Protection Agency (“EPA”) and DEQ regulations. The City monitors biosolids to demonstrate regulatory compliance and assure product quality. Biosolids recycling via land application at Madison Farm in north central Oregon has been the major focus of the City’s biosolids management program since 2000. The City terminated its composting operation in 1999.

To protect the quality of biosolids, treatment plant effluent, and personnel working in the Sewer System, and to comply with EPA and DEQ requirements, the City operates a comprehensive industrial waste program. There are currently 156 industries operating under City discharge permits, and compliance files are maintained on approximately 450 industrial users. Periodically, through its ongoing monitoring program, the City may detect discharges to the System that exceed established standards. In these cases, the City initiates a process of notification and enforcement requiring the industry to regain compliance. Lack of compliance by the offending industry can lead to imposition of fines or ultimately to the plugging of the industry’s service lateral. The City Code also allows recovery of any damages to the Sewer System that result from impermissible discharges. Ninety-nine percent of permittees are in compliance.

THE BUREAU OF ENVIRONMENTAL SERVICES

BUREAU ORGANIZATION

The Bureau of Environmental Services (the “Bureau”) is headed by a director who reports directly to the Commissioner of Public Affairs. The Bureau is responsible for the Sewer System’s operation, maintenance and capital construction. The Bureau is organized into six groups of primary responsibilities, which are Office of the Director, the Business Services Group, the Wastewater Management Group, the Planning Group, the Engineering Services Group, and Pollution Prevention Services Group. At times, consultants are employed for specific projects, which require expertise or staffing beyond the Bureau’s capability. Certain administrative functions and Sewer System maintenance are provided by other City departments and bureaus on a reimbursable basis. The total budgeted staffing complement for the Bureau in FY 2005-06 stands at 481 full time equivalent employees (“FTEs”) distributed as follows:

- Office of the Director - 16 FTEs
- Business Services Group - 35 FTEs
- Wastewater Group - 149 FTEs
- Watershed Services Group - 47 FTEs
- Engineering Services Group - 163 FTEs
- Pollution Prevention Services Group - 71 FTEs

Responsibility for overall management of the Sewer System and environmental policy planning resides in the Office of the Director. The organization chart in Figure 1 on the following page shows the various groups into which the operations of the Bureau are organized.

Office of the Director

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

Business Services Group

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

Wastewater Group

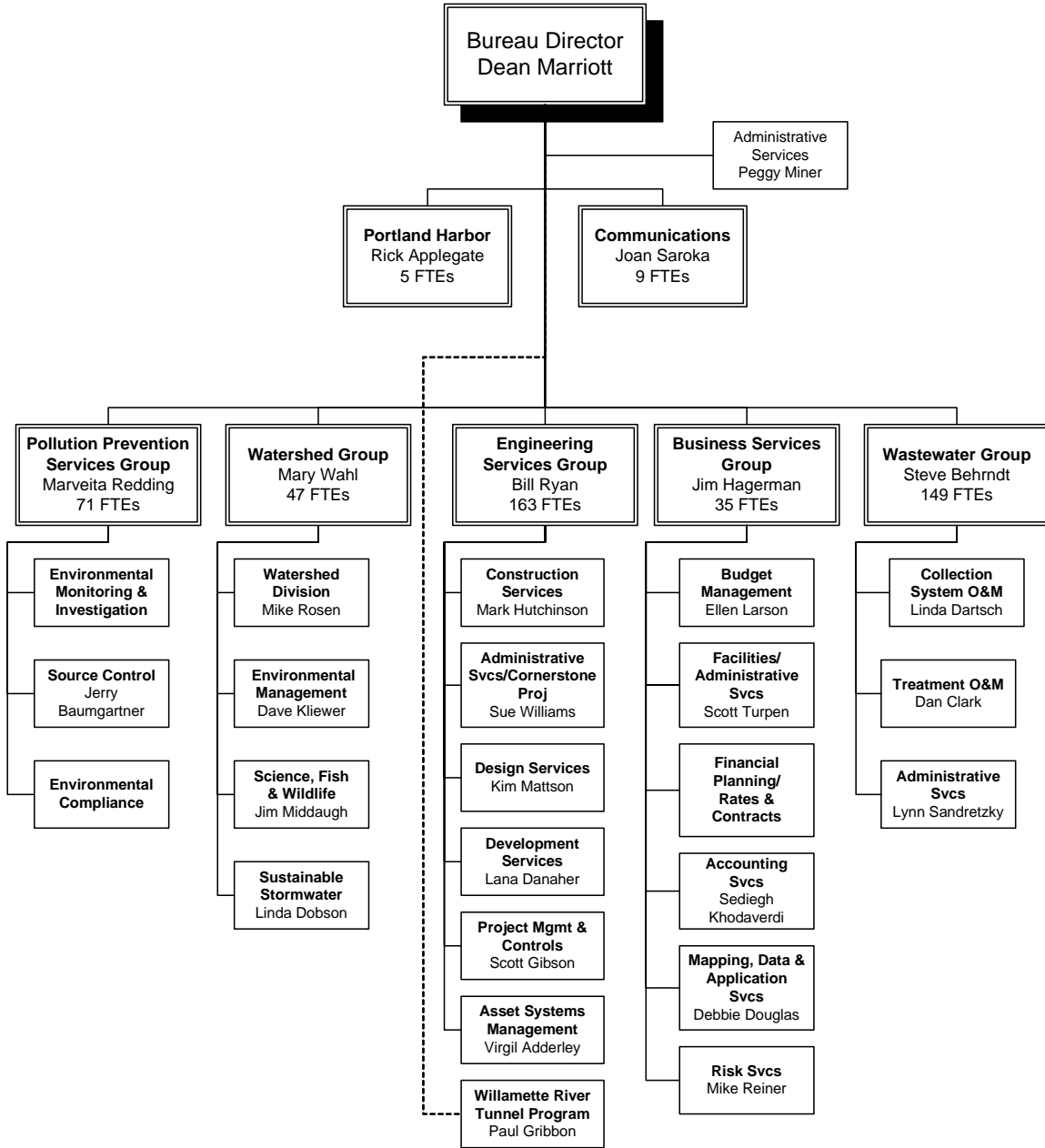
The Wastewater Group is responsible for the operation, maintenance, monitoring and administration of the City's wastewater and stormwater collection and treatment facilities and related programs. These facilities include the Columbia Boulevard and Tryon Creek Wastewater Treatment Plants, 91 pumping stations, the sanitary sewage and stormwater collection system, and a wide variety of stormwater detention and treatment facilities, and also water quality ponds, stormwater sumps and surface drainage systems.

Watershed Services Group

The Watershed Services Group is responsible for developing a watershed management plan covering all of the City's urban watersheds, policies and programs needed to implement the Clean River Plan and meet federal and state regulations. Watershed Services conducts watershed assessments and comprehensive watershed planning via the Portland Watershed Management Plan (PWMP), monitors and evaluates the effectiveness of stormwater management practices, promotes and implements sustainable site development projects and practices, develops new policies, interprets and implements state and federal surface and groundwater policies and regulations, and implements projects to protect and restore watershed functions.

Figure 1

**CITY OF PORTLAND, OREGON
Bureau of Environmental Services
Organization Chart**



----- Dashed line represents reporting relationship

Engineering Services Group

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

Pollution Prevention Services Group

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

SERVICES PROVIDED BY OTHER CITY BUREAUS

Services provided to the Bureau by other City bureaus and offices fall into two major categories: overhead and direct. Overhead services include legal, purchasing, central accounting, personnel and payroll services, and are charged to the Bureau based on various workload indicators used to measure consumption of overhead services. FY 2005-06 costs for overhead services are budgeted at \$2.7 million.

Direct services include fleet, printing, internal mail, telephone, electronic services, liability and workers' compensation insurance, customer billing and engineering related services such as survey and structural engineering services. Direct services are charged according to actual use. The most significant direct services in terms of budgeted expenditures are customer billing and collection services, provided through the City's water utility (see "ANNUAL DISCLOSURE INFORMATION -- USER CHARGE BILLING AND COLLECTIONS SYSTEM" herein); and sewer maintenance, cleaning and repair of sanitary and stormwater sewer systems, including the portion of street sweeping services that directly benefit the Sewer System, provided by the City's Bureau of Maintenance. FY 2005-06 costs for direct services are budgeted at \$38 million.

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

UTILITY LICENSE FEE

The Bureau pays a utility license fee to the City's General Fund equal to 7.5 percent of gross in-City sewer user charges. Currently, the utility license fee is not subject to regulation by state law and may be raised at the discretion of the City Council. The fee has been treated as an Operating Expense through FY 2000-01. Beginning in FY 2001-02, the Utility License Fee has been subordinated to the payment of debt service on the First Lien Bonds and Second Lien Bonds.

On September 1, 2004, the City Council voted to cap utility license fees for the water and sewer utilities at the current budgeted levels, until those levels represent 5 percent of utility revenues. The Bureau's budgeted utility license fee payment will therefore remain at the current budgeted amount of \$12.8 million until that amount represents 5 percent of utility revenues. After that time, utility license fee payments may again grow, but at 5 percent of utility revenues. This is not forecasted to occur until FY 2012-13.

MANAGEMENT PERSONNEL

The following are brief biographies of key Sewer System personnel.

Sam Adams, Commissioner of Public Utilities

Mr. Adams was elected to the City Council in 2004. In addition to the Bureau, he oversees the Portland Office of Transportation. Mr. Adams holds a Bachelors degree from the University of Oregon. He served as chief of staff to Mayor Vera Katz from 1992 through 2003. Mr. Adams serves on the Board of Directors for the Cascade AIDS Project and in his role as City Commissioner

serves on the boards of the Portland Streetcar Inc., Joint Policy Advisory Committee on Transportation, the Bi-State Coordination Committee, the Regional Arts and Culture Council, the Portland Oregon Visitors' Association and the Kenton Business District Association.

Dean Marriott, Director, Bureau of Environmental Services

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

Jim Hagerman, Manager, Business Services Group

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

Stephen Behrnt, Manager, Wastewater Group

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

Mary Wahl, Manager, Watershed Services Group

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

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

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

Marveita Redding, Interim Manager, Pollution Prevention Services Group

Ms. Redding has been with the Bureau of Environmental Services since 1990 and was appointed the Interim Manager of the Pollution Prevention Services Group in November 2005. Prior to that appointment, she was the Environmental Compliance Manager for the Bureau with responsibilities for the compliance of the regulated public as well as the Bureau's compliance with federal, state and local environmental programs. She came to the City from the State of Oregon, Department of Agriculture where she served as the Executive Assistant to the Director. Ms. Redding holds a Bachelor of Arts degree from Pacific Union College and a Juris Doctor degree from the University of California, Hastings College of Law.

REGULATORY AND LEGAL ENVIRONMENT

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

REGULATORY CONSENT AND COMPLIANCE ORDERS

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

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

ADMINISTRATIVE ORDERS AND OTHER REGULATORY MATTERS AFFECTING THE CSO PROGRAM

Administrative Orders

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

Stipulation and Final Order WQ-NWR-91-75

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

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

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

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

December 1, 1997	Submit final engineering plans and specifications for construction work to eliminate untreated discharges at 20 CSO discharge points, including all discharge points to the Columbia Slough, consistent with the approved Facilities Plan.
May 1, 1998	Begin construction work to eliminate untreated discharges at 20 CSO discharge points, including all discharge points to the Columbia Slough.
December 1, 2000	Eliminate untreated discharges at all 13 CSO discharge points to the Columbia Slough, consistent with the approved Facilities Plan.
December 1, 2001	Eliminate untreated discharges at 7 CSO discharge points to the Willamette River, consistent with the approved Facilities Plan.
December 1, 2006	Eliminate untreated discharges at 16 of the remaining discharge points to the Willamette River consistent with the approved Facilities Plan.
September 1, 2010	Submit facilities plan report outlining methods for achieving further reductions in the frequencies and volumes of CSO after the term of the ASFO.
December 1, 2011	Eliminate untreated discharges at all remaining CSO discharge points consistent with the approved Facilities Plan.

The City has met or is on schedule to meet each of the above major milestones according to the requirements of the ASFO. In addition, the City is constructing the Westside Willamette CSO facilities while designing the Eastside Willamette CSO Facilities. This work will ensure the City continues to meet its regulatory commitments.

EPA Review of Portland CSO Program

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

The City has been working with EPA and DEQ as part of EPA's review of Portland's CSO Program. The City has hosted several workshops with EPA and DEQ staff to provide information on several items raised by EPA in their letters. Negotiations have been ongoing to resolve any questions and concerns expressed by EPA. Additional meetings will be scheduled for spring of 2006 to continue the dialogue and hopefully resolve any remaining issues. The City has been open about providing information, but has been vigorous in defending its position. The impact to operating and capital costs of any possible settlement are unknown at this time, but are not expected to materially affect forecast rates.

REGULATORY REQUIREMENTS

Water Quality Compliance

In 1986, the Northwest Environmental Defense Center brought suit against the EPA for not enforcing requirements of the Clean Water Act on the Tualatin River and several other surface waters within the State of Oregon. The lawsuit resulted in a consent decree under which all jurisdictions within the Tualatin Basin and the DEQ must develop and implement plans to control nutrient sources and comply with the Tualatin Basin phosphorus Total Maximum Daily Pollutant Load ("TMDL"). The City has approximately 8,000 acres of land within the Tualatin River drainage basin. As a jurisdiction within the basin, the City was required to comply with the TMDL for phosphorus. The City continues with the planning, predesign, design, and implementation of various measures, including water quality facilities, to meet the Tualatin TMDL requirements applicable within the City. In 2001, DEQ revised the phosphorus TMDL and also established new TMDLs for bacteria, dissolved oxygen and temperature in the Tualatin Basin. Portland as a jurisdiction in the basin is required to comply with the new TMDLs and as such is working with DEQ and other designated management agencies in the basin to develop and implement TMDL Implementation Plans.

Tryon Creek is also on the 303 (d) list for temperature. DEQ is expected to finalize the Tryon temperature TMDL in July 2006. Tryon Creek is not on the 303 (d) list for any other parameter.

The EPA consent decree also required DEQ to develop TMDLs for 10 other water quality limited stream segments, including the Columbia Slough and Johnson Creek, tributaries of the Willamette River located within the City. The water quality of the Columbia Slough is impacted by municipal stormwater discharges, industrial discharges, and hydraulic modifications. On December 13, 1990, DEQ issued draft TMDLs for phosphorus and bacteria in the Columbia Slough for public comment. The draft TMDLs were not implemented at that time. On April 2, 1992, the City entered into an agreement with DEQ committing the City to a detailed study of

the Columbia Slough. The agreement further required that the City comply with established load allocations and waste load allocations within ten years. In 2002, DEQ added iron and manganese to the 303(d) list.

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

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

These areas required no further action other than long-term monitoring. The City has met all the deadlines specified in the 1993 order and is continuing work to further characterize other identified potential problem areas in the Lower Slough as well as conducting extensive source investigations and source control actions throughout the watershed. Because of the widespread but low-level contamination throughout the Slough, a signature of non-point source pollution in an urban environment, the City and DEQ are currently developing a watershed approach, as opposed to a conventional site-specific approach, towards controlling the input of contaminated sediments from upland sources.

Johnson Creek was placed on the 303(d) list in 1998 as water quality limited for temperature, bacteria, DDT, and dieldrin. In 2002, PCBs and polycyclic aromatic hydrocarbons were added to this list. In 2001, DEQ started preparing a TMDL for the four constituents listed in 1998. With the assistance of USGS and the Johnson Creek Inter-jurisdictional Committee, monitoring events were coordinated, available data was compiled, and a draft TMDL was prepared and peer reviewed. The Johnson Creek TMDL will be part of the Willamette Basin TMDL to be released for public review by June of 2006. The implementation of this TMDL will be required as part of the City's NPDES municipal stormwater permit.

The Oregon legislature directed DEQ to establish TMDLs for bacteria, temperature, and mercury in the Willamette River, for DDT, dieldrin, bacteria, and temperature in Johnson Creek, and for temperature in the Columbia Slough and Tryon Creek. These new TMDLs are in addition to existing TMDLs already developed by DEQ for the Columbia Slough and the City's portion of the Tualatin Basin and Fanno Creek. As a result, the Bureau is adjusting its water quality monitoring program and coordinating its monitoring efforts with other regional agencies in order to be an effective participant in this process. In addition, the connection of the City's municipal NPDES stormwater discharge permit with TMDL waste load allocations will require a comprehensive monitoring program to be established.

National Pollutant Discharge Elimination System Municipal Storm Sewer System Permit

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

In June 2004, challenges by third parties prompted DEQ to begin reconsideration of environmental aspects of the permit. As a result of that reconsideration, DEQ has made some modifications, and the modified permit conditions are in effect. The City and its co-

permittees are revising their respective Stormwater Management Plans to implement the requirements of the permit. There are appeals to the modified permit pending before the State Land Use Board of Appeals and in Circuit Court.

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

Underground Injection Control Water Pollution Control Facility Permit

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

The rules define any form of discharge of stormwater below ground as a Class V injection well. As a result of this classification, the City’s approximately 8,300 stormwater sumps fall under regulation by the Safe Drinking Water Act. To comply with these regulations, the City submitted an inventory of existing UICs in December 2000 and an updated inventory in December 2001. An initial system wide assessment was submitted to the DEQ in March 2002. This assessment included an estimation of land use and activities in areas drained by sumps, evaluation of groundwater elevations across the city, and best management practices for source control and operations and maintenance. In July 2002, the City filed for a Water Pollution Control Facility (“WPCF”) permit to operate the UICs. The City is currently in discussions with DEQ about WPCF permit conditions and requirements. The ten-year permit has been issued, and the City is in the process of developing a UIC Management Plan and updating the system-wide assessment.

Although the UIC management program has many stormwater management actions in common with the NPDES stormwater permit program, developing and implementing the new program will impact operating programs as well as the capital program. Currently identified capital costs, such as retrofits some of the existing sumps with sedimentation manholes, are included within the Surface Water Management Capital Improvement Program. The operating costs of permit-related programs, distributed across Bureau and other City programs (for example, system assessment updates, sedimentation manhole cleaning), are forecast to be approximately \$1 million in FY 2006-07, primarily for planning and program development. Implementation costs in future years will be better defined during the planning and program development stage, but are expected to remain at similar levels. Capital cost impacts are not yet known, but may exceed several million dollars over the five-year forecast interval .

Endangered Species Act Requirements

On March 13, 1998, the National Marine Fisheries Service (now NOAA Fisheries) listed the Lower Columbia Steelhead as a threatened species under the Endangered Species Act (“ESA”). NOAA Fisheries listed the Lower Columbia Chinook salmon as threatened under the ESA in March 1999. The listed stocks migrate through, spawn, and spend their first 2-3 years in streams found within the City’s corporate boundaries. The basic requirement of the ESA is to avoid harming or harassing the listed species (steelhead and chinook in this case) or significantly modifying their habitat (including physical, chemical, and biological modifications).

The City has established a comprehensive framework for developing a Portland-specific recovery plan for these species. The framework was reviewed and endorsed by independent peer reviewers. The Bureau is developing comprehensive watershed plans for the Willamette River watershed as well as the Fanno/Tryon Creek, Johnson Creek, and Columbia Slough subwatersheds based on the framework. These comprehensive plans will provide background information and recommendations for improved watershed health to guide the City’s fish recovery efforts. The City Council has passed a resolution stating its intention to have that recovery plan reviewed and approved by NOAA Fisheries and the U. S. Fish and Wildlife Service (“USFWS”). NOAA Fisheries and USFWS have provided written support for the City’s framework and its ongoing ESA-related activities.

The City also has completed a screening level assessment of all its activities that might affect steelhead or steelhead habitat and developed work plans to improve or discontinue those activities. Formal and informal negotiations with NOAA Fisheries are underway on a number of City activities, including stormwater management, culvert replacement, streambank treatment, riparian protection zones, habitat assessment, erosion control, and monitoring and evaluation. The City’s road maintenance procedures and policies and key portions of the City’s integrated pest management program related to stream and riparian areas were recognized as consistent with the ESA in NOAA Fisheries’ final rules. The agency recently asked the City to collaborate on the development of a model municipal stormwater program based on the strength of the City’s existing management activities.

In addition, Portland is the only non-federal entity in the nation to have a formal agreement with NOAA Fisheries, the U.S. Army Corps of Engineers and the USFWS that streamlines permit requirements associated with the ESA. The agreement helps ensure that City capital projects that trigger ESA requirements move quickly and efficiently through the regulatory process. The General Accounting Office highlighted the agreement in a recent report to Congress on implementation of the ESA.

Because this is the first time anadromous fish have been listed in an urban area, it is unclear what the exact requirements and associated financial obligations will be from the listings. There are some clear areas that will be affected within the scope of the Bureau. At a minimum there will be costs associated with more complicated permitting issues. At a maximum there will be additional costs from new facilities and revised operating procedures that will help address those water quality and habitat issues in the Bureau's charge. Funds for the ESA response (approximately \$867,000 for planning and permitting, of which approximately \$631,000 is reimbursed through participation by other City bureaus and funds) are included in the FY 2005-06 operating budget. Funding for the Bureau's share of any capital projects or additional operating requirements will be budgeted as needs are identified.

Portland Harbor Sediments

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

The Portland Harbor effort is currently focused on a stretch of the river from Sauvie Island to the Swan Island industrial area, all within the corporate boundaries of the City. The initial scope of the investigation is about 6 miles, which may change as the investigation continues. The City is one of the potentially responsible parties actively engaged in assessment and planning work for cleanup and restoration in the Lower Willamette. The City's potential contribution of contaminants is associated with stormwater discharges to the river and with two upland sites: the Water Pollution Control Laboratory site and the Linnton oil fire training ground site. The City operates over 20 stormwater or combined sewer overflow outfalls within Portland Harbor. The outfalls serve as conduits for stormwater draining from City owned rights-of-way and from industrial, commercial, residential, and vacant lands. When it rains, stormwater transports soil (dust, sediment, and debris), metals, oil, grease, bacteria, and chemicals to the river. These materials may impair water quality and impact Willamette River sediments.

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

Based on the City's involvement with the Superfund site, the anticipated cost for management, technical and legal staffing; the City's share of the sediment investigation; the City's investigation of the outfalls; and the City's assessment of source control measures and early natural resource demonstration projects is approximately \$12 million over the interval remaining before the Record of Decision, which is expected in 2009 or 2010. The total costs associated with the cleanup and restoration activities and the City's ultimate share of those costs are unknown and the City cannot at this time predict the financial impact on the Sewer System. However, the City is taking the lead in efforts to make the cleanup efficient and effective. The City is taking a proactive stance in cooperating with EPA's sediment assessment work and developing an outfall evaluation and source control plan in cooperation with DEQ. Cleanup and restoration work will make use of the Bureau's comprehensive watershed planning and Endangered Species Act efforts now underway. The City is beginning to assess potential restoration activities with the Natural Resource Trustees, and is working with the U.S. Army Corps of Engineers on a comprehensive plan that could result in substantial funding for overall Lower Willamette natural resources restoration under the Water Resources Development Act.

CAPITAL CONSTRUCTION AND FINANCING PROGRAM

CAPITAL PLANNING PROCESS

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

- **Sewage Treatment Systems.** Projects within this category include renovation, modification, and expansion of sewage treatment plants and facilities directly related to sewage treatment and solids utilization.
- **Maintenance and Reliability.** Projects within this category include maintenance of collector sewers, trunk sewers, interceptor sewers (including diversion structures within the combined system), and major pump stations.
- **Surface Water Management.** Projects within this category include construction of separated storm sewers, stormwater detention facilities, stormwater facilities necessary to meet water quality requirements, and other capital projects related exclusively to drainage services.
- **Combined Sewer Overflow.** Projects within this category include separation of combined sewers, provision of additional capacity for interceptor sewers, installation of sumps, and all other projects directly related to compliance with CSO control requirements.
- **Systems Development.** Projects within this category include construction of new pump stations, relocation of sewage collectors and interceptor lines, and other capital projects relating to Sewer System expansion that do not fall under the scope of the other program areas.

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

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

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

FACTORS AFFECTING SEWER SYSTEM CAPITAL INVESTMENT

Two major factors will guide capital investment in the Sewer System for the next ten years. First, the Bureau faces regulatory requirements driven by the federal Water Quality Act amendments of 1987. Rule-makings, administrative orders and judicial orders at the state and federal level have imposed new service requirements on the City, requiring additions to or improvements of sewage treatment and transportation facilities. The City has agreed to a schedule for meeting applicable water quality standards at all combined sewer outfalls under the ASFO approved by the EQC. (See "ADMINISTRATIVE ORDERS AND OTHER REGULATORY MATTERS AFFECTING THE CSO PROGRAM.") Costs to date total \$694 million. Remaining direct costs to comply fully with the ASFO are estimated to be \$795 million through 2012.

Second, there is a continuing need for investments to improve the maintenance and reliability of the existing facilities. As major facilities within the Sewer System begin showing their age, major reconstruction and maintenance projects will need to be undertaken. Forecast capital improvement expenditures within the Bureau's Maintenance and Reliability Program total \$71.0 million over the next five years.

CAPITAL IMPROVEMENT PROGRAM RESOURCES AND REQUIREMENTS

The City forecasts capital requirements for the Sewer System of approximately \$771 million during the five-year forecast period from FY 2006-07 through FY 2010-11. A brief description of the resources required to finance these requirements follows.

- Fees, Charges, and Permits. This source of funding includes an estimate of reimbursements for engineering, administration, and construction management services charged to local improvement districts and for permit sewer construction. Also included are anticipated revenues from construction and/or engineering services for projects initiated by other local government agencies such as the City's Department of Transportation and The Port of Portland.
- Line and Branch Charges. Charges in lieu of assessment will be used to support Capital Improvement Plan ("CIP") outlays. Line and branch charges are received in the form of cash and in the form of proceeds from special assessment bonds issued for property owners who elect to finance their line and branch charges.
- System Development Charges. System Development Charges ("SDCs") are equity charges applied to properties at the time they connect to the Sewer System. SDCs are based upon the total cost of major sewer facilities, less grant revenues, divided by System capacity. SDC revenues fund capital construction and debt service.
- Current Income. Current Sewer System net income from service fees and charges will also be used to fund CIP outlays. The availability of current income to fund CIP expenditures is the result of meeting debt service coverage requirements on outstanding bonds. Cash contributions to capital construction are projected to total \$45.9 million over the five-year period.
- Bond Proceeds. Proceeds from the sale of Sewer System revenue bonds will support the CIP. Debt service requirements for future bond sales have been forecast assuming a 20-year debt amortization schedule and level debt service.
- Investment Income. Investment or interest income is earned on all Sewer System funds administered by the City Treasurer. Any investment income earned on balances within Sewer System funds helps offset required increases in sewer user fees.

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

Table 4
CITY OF PORTLAND, OREGON
Sewer System Construction Fund
Forecast Sources and Uses of Funds
and Estimated Changes in Fund Balances (1)

Fiscal Year	Projected 2005-06	Forecast 2006-07	Forecast 2007-08	Forecast 2008-09	Forecast 2009-10	Forecast 2010-11
(In thousands of dollars)						
RESOURCES:						
Fees & Charges, Permits	\$398	\$334	\$341	\$349	\$357	\$365
Line & Branch Charges	545	500	752	755	759	763
Cash Transfers In -						
Sewer System Operating Fund (2)	21,000	4,700	1,068	10,182	8,877	21,102
Grants and State Loans	8,094	1,600	2,050	1,367	911	0
Bond Proceeds (Sewer Revenue Bonds)	269,998	0	274,390	0	195,970	0
Bond Proceeds (Limited Tax Improvement Bonds)	1,000	1,000	2,200	2,300	2,400	2,600
Miscellaneous	169	1,556	0	0	0	0
Interest On Investments	3,014	8,409	8,366	4,946	3,263	1,806
TOTAL RESOURCES	304,217	18,099	289,168	19,900	212,537	26,634
REQUIREMENTS:						
Cash Transfers Out:						
Sewer System Operating Fund (3)	153,768	211,875	160,176	177,712	143,061	78,522
Capitalized Overhead (to Operating Fund)	8,460	7,500	7,102	7,311	7,525	7,746
Miscellaneous	1,750	0	3,090	0	2,320	0
TOTAL REQUIREMENTS	163,978	219,375	170,368	185,023	152,906	86,268
RESOURCES OVER (UNDER) REQUIREMENTS	140,240	(201,276)	118,800	(165,123)	59,631	(59,634)
BEGINNING FUND BALANCE	107,872	248,111	46,835	165,635	512	60,143
ENDING FUND BALANCE	\$248,111	\$46,835	\$165,635	\$512	\$60,143	\$510

Notes:

- (1) Totals may not foot due to rounding.
- (2) Represents cash financing of construction activity from sewer system revenues.
- (3) Expenditures for the capital program occur in the Operating Fund and are subsequently reimbursed from the Construction Fund.

Source: Bureau of Environmental Services.

Planned CIP outlays total \$771 million over the five-year forecast period. The following table shows the construction costs estimated for FY 2005-06 and for the forecast period by program and by major expense type.

Table 5
CITY OF PORTLAND, OREGON
Sewer System
Forecast Capital Improvement Program Costs
(excluding fund balances and cash transfers)

Fiscal Year	Projected 2005-06	Forecast 2006-07	Forecast 2007-08	Forecast 2008-09	Forecast 2009-10	Forecast 2010-11	6-Year Total
(In thousands of dollars)							
<u>SYSTEM PROGRAM</u>							
Sewage Treatment Systems	\$13,516	\$15,430	\$5,847	\$4,228	\$3,630	\$3,598	\$46,249
Maintenance & Reliability	17,201	20,316	17,179	18,975	12,657	10,821	97,148
Drainage & Storm Water Quality	4,068	4,855	2,699	3,900	1,702	2,686	19,910
Combined Sewer Overflow	105,628	164,706	129,590	148,739	123,055	59,900	731,619
System Development	16,493	6,569	4,860	1,870	2,018	1,517	33,326
TOTAL BY SYSTEM PROGRAMS	\$156,906	\$211,875	\$160,176	\$177,712	\$143,061	\$78,522	\$928,251

Notes:

(1) Totals may not foot due to rounding.

Source: Bureau of Environmental Services.

FINANCIAL POLICIES AND PLANNING STANDARDS

FIVE YEAR FINANCIAL PLAN

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

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

FINANCIAL OPERATIONS POLICIES

Ending Fund Balances

The Bureau maintains a financial planning policy that the combined ending fund balances within the Sewer System Operating Fund and the Rate Stabilization Fund must be equal to or greater than ten percent of each year's Operating Expenses, plus any required debt service reserves. For FY 2005-06, the minimum combined ending fund balance would be \$8.2 million, which is ten percent of Operating Expenses. The Bureau is building fund balances in the Rate Stabilization Fund through FY 2008-09 to smooth future rate increases from increased debt service. These fund balances will be drawn through FY 2014-15, when combined fund balances are forecast to return to the minimum planning policy level of ten percent of operating expenses. In addition, the Sewer System Operating Fund will also hold another \$9 million ending fund balance as interest rate risk reserves through the life of the Bureau's variable rate junior lien debt, and another \$200,000 reserve for State Revolving Fund loans currently totaling \$19.7 million.

Use of Rate Stabilization Fund

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

POLICIES AND PLANS GOVERNING BOND ISSUANCE

Debt Service Coverage

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

Financial Policies Relating to Variable Rate Obligations

With the issuance of the Second Lien Sewer System Revenue Bonds, 2003 Series B Bonds (the “2003 Series B Bonds”), which were issued as auction rate securities, the Bureau has adopted a conservative approach to planning for interest rate volatility on its variable rate debt. For FY 2005-06, the Bureau has budgeted using an average interest rate of 4.75 percent plus a 0.25 percent broker/dealer fee for the \$150 million 2003 Series B Bonds. (See “Historical and Projected Results of Financial Operations.”) The difference between Actual Debt Service and the amount budgeted will be applied each year to fund an interest rate risk reserve (described below) and for retirement of outstanding debt. To manage the risks associated with this variable rate debt, the Bureau has adopted the following policies:

- An interest rate risk reserve of \$9 million was fully funded on June 30, 2005. This reserve will be sufficient to offset interest rates three percent above forecast levels for two years.
- The interest rate used to calculate debt service for the variable rate bonds in the Bureau’s financial forecasts (for the purpose of determining planning standard coverage requirements) will be at least 100 basis points (1.0%) higher than the most recent actual rate on variable rate bonds.
- Funds representing the difference between forecast and Actual Debt Service on the variable rate bonds will be used first to fund the reserve for interest rate risk, then to retire outstanding Sewer System debt. As of April 1, 2006, accumulated savings from actual debt service below budgeted estimates totaled \$3.6 million.
- The Bureau will review the interest rate assumptions and revise them as necessary to satisfy the one-percent margin for the forecasts underlying the annual five-year financial plan and the annual rate study. The Bureau may update the assumptions more frequently should it determine the need to do so.

ANNUAL DISCLOSURE INFORMATION

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

OVERVIEW OF FINANCIAL OPERATIONS

Basis of Accounting

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

Fiscal Year

July 1 to June 30.

Audits

The Oregon Municipal Audit Law (ORS 297.405 - 297.555) requires an audit and examination be made of the accounts and financial affairs of every municipal corporation at least once each year. The audit shall be made by accountants whose names are included on the roster prepared by the State Board of Accountancy.

KPMG LLP conducted audits of the financial statements of the City of Portland and related entities from FY 1995-96 through FY 2001-02. The City entered into a contract with Moss Adams LLP to perform auditing services for FY 2002-03, with an option to extend the contract for an additional two years. Moss Adams LLP has completed the audit for FY 2004-05.

A complete copy of the City’s FY 2004-05 audit is available on the City’s web site at <http://www.portlandonline.com/omf/index.cfm?c=26053>. The City’s web site is listed for reference only, and is not part of this Official Statement.

Financial Reporting

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

BUDGET PROCESS

The City prepares annual budgets for all its bureaus in accordance with provisions of Oregon Local Budget Law. The law provides standard procedures for the preparation, presentation, administration, and public notice for public sector budgets. At the outset of the process, the City Council convenes to review overall goals, establish priorities, and provide direction to bureaus. The Council conducts an extensive public information process to obtain direct public input on City service priorities, and most bureaus include key stakeholders in developing their budget requests. In addition to this public outreach process, the City created the Portland Utilities Review Board (the “PURB”) in 1994. The PURB, an appointed body of nine interested citizens who provide independent and representative customer review of water, sewer, stormwater, and solid waste financial plans and rates, operates in an advisory capacity to Council.

A five-year financial forecast is provided to Council and serves as the basis for determining resources available for budgeting. The Council then holds a work session with the City’s key bureaus to discuss short and long-term issues, and to review the five-year financial plans prepared for each major bureau.

Bureau budget requests are reviewed by teams of Council members and citizen advisors who solicit further public comment and make recommendations to the Mayor. The Mayor then develops a Proposed Budget that addresses Council priorities, public input, and balancing requirements. Following presentation of the Proposed Budget, one or more community hearings are scheduled wherein public testimony is taken. A budget summary and notice of hearing are published prior to the hearings. The City Council, sitting as the Budget Committee, considers the testimony from the community and can alter the budget proposal before voting to approve the budget.

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

INSURANCE

The City is self-insured for workers' compensation, general liability claims, and certain employees' medical coverage in internal service funds. Per Oregon Revised Statute 30.270(1)(b)(c), general and fleet liability claims are limited to \$100,000 per person, and an additional \$100,000 per person under special circumstances and \$500,000 aggregate per occurrence. Claims under federal jurisdiction are not subject to such limitations. The City estimates liability for incurred losses for reported and unreported claims for workers' compensation, general and fleet liability and employee medical coverage. Workers' compensation, general, and fleet liability estimates are primarily based on individual case estimates for reported claims and through historical data for unreported claims as determined by the City's Risk Management Division and independent actuarial studies. Liabilities are based on the estimated final cost of settling claims, including effects of inflation and other societal and economic factors. Estimated liability is then discounted by the City's expected rate of return and anticipated timing of cash outlays to determine the present value of the liability. For FY 2004-05, the expected rate of return was 2.17 percent. The City's Bureau of Human Resources and the employee benefits consultant determines relevant employees' medical coverage estimates.

The City provides insurance coverage deemed as adequate, appropriate, and actuarially sound. It meets all the City's anticipated settlements, obligations, and outstanding liabilities. Current levels of accrued claims and retained earnings are viewed as reasonable provisions for expected future losses. An excess coverage insurance policy covers individual claims in excess of \$1,000,000 and an excess workers' compensation coverage insurance policy covers claims in excess of \$1,500,000. Settlements have not exceeded coverages in the past three fiscal years.

POST-EMPLOYMENT RETIREMENT BENEFITS

The City is currently assessing its liability for other post-employment benefits ("OPEB") in anticipation of expanded reporting requirements specified by GASB Statement No. 45 ("GASB 45"). The City's liability is limited to the implicit rate subsidy for retiree health benefits. This is the difference between what retirees pay for their health insurance as result of their inclusion with active employees for rate-setting purposes and the estimated required premiums if their rates were set based on claims experience of the retirees as a separate group. The City is in the process of evaluating factors that will be used in computing its OPEB liability, including an appropriate discount rate and health care trends, and will then determine how it intends to fund this liability. The City expects to report its OPEB liability in conformance with GASB 45 requirements beginning with the fiscal year ending June 30, 2008.

PENSION PLANS

General

Substantially all City employees (other than most fire and police personnel), after six months of employment, are participants in the State of Oregon Public Employees Retirement System ("PERS") Plan or the Oregon Public Service Retirement Plan ("OPSRP").

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

The 72nd Oregon Legislature created the OPSRP. Public employees hired on or after August 29, 2003, become part of OPSRP, unless membership was previously established in PERS. OPSRP is a hybrid (defined contribution/defined benefit) pension plan with

two components. Employer contributions fund the defined benefit program and employee contributions fund individual retirement accounts under the separate defined contribution program.

Employers participating in the PERS Plan and OPSRP are required to remit contributions based on rates calculated by the PERS board. Rates are the amounts estimated by the board as necessary to pay the retirement and other pension obligations owed to employees when they retire, die, or become disabled. The employer contribution rates are set using the entry age actuarial cost method. Covered employees are required by state statute to contribute six percent of their annual salary to the PERS Plan or OPSRP, but the employer is allowed to pay any or all of the employees' contribution in addition to the required employers' contribution. The City has elected to make the six percent employee contribution.

During the period between July 1, 2003 through June 30, 2005, the City was paying a total PERS/OPSRP rate of 9.70 percent. This rate comprises the 6 percent employee contribution rate, and the employer rate of 3.70 percent. At the March PERS Board meeting, the PERS actuary presented the rate increases for individual employers. The City's rate for FY 2005-06 and FY 2006-07 is 14.07 percent of payroll (including the 6 percent employee contribution rate). The rate will increase to 18.29 percent of payroll in FY 2007-08. One percent of current payroll is equal to about \$2 million. The employer contribution rate is subject to future adjustment based upon the results of subsequent actuarial valuations or the effect of outcomes to legal challenges to recent PERS legislation. (See "Legal Challenges" below.)

The total pension plan contribution of the City charged to expenditures for FY 2004-05 was \$22,681,842. Additionally, each City bureau contributes a portion of the debt service on the City's \$300.8 million Limited Tax Pension Obligation Revenue Bonds issued in FY 1999-00. These bonds were issued to fund the unfunded actuarial accrued liability with PERS as of December 31, 1997. In accordance with generally accepted accounting principles, the City has allocated the pension bond liability to all funds that have employees who are PERS members, including the Commission.

As of December 31, 2003, the actuarial value of the City's assets with the PERS exceeded its actuarial liability by \$28,240,751, which is calculated assuming legislative actions withstand legal challenges. (See "Legal Challenges" below.)

Legal Challenges

The 2003 Oregon Legislative Assembly enacted significant changes to PERS that were intended to reduce costs for participating employers, including the City (the "2003 PERS Legislation.") The 2003 PERS Legislation, among other things, provided that Tier One members would receive the PERS assumed annual earnings rate (currently 8%) on their accounts over the length of the members' service rather than on an annual basis; eliminated a requirement that employers make up any deficits in a gain loss reserve account; modified a member's ability to invest in a variable account; and changed the actuarial tables upon which life expectancies and benefits were based.

In July 2003, a number of Oregon public employees filed challenges to the 2003 PERS Legislation in federal district court and the Oregon Supreme Court. The lawsuits allege that the 2003 PERS Legislation violates PERS-covered employees' contractual rights under both the U.S. and State constitutions. In August 2004, a federal district court judge upheld the 2003 PERS Legislation as lawful under the U.S. constitution. The plaintiffs in that case have appealed, and the case is now pending before the Ninth Circuit Court of Appeals. In March 2005, the Oregon Supreme Court ruled on the cases filed in the Oregon Supreme Court (the "Strunk Decision"). The court held that Tier One members must continue to receive the PERS assumed annual interest rate on their existing accounts and that cost-of-living adjustments for current retirees could not be suspended. The court rejected all other challenges to the 2003 PERS Legislation. Several other cases remain pending in the Oregon circuit courts and may be governed by the Strunk Decision.

The 2003 PERS Legislation also provided a statutory remedy to a prior case, known as the *City of Eugene* case, which was brought in circuit court on behalf of certain local government public employers. In the *City of Eugene* case, the trial court ruled, among other things, that Public Employees Retirement Board ("PERB") had credited too much in 1999 earnings to member accounts and had not properly funded reserves, leading to certain retirees receiving excessive benefits. In an effort to address the trial court's ruling, the 2003 PERS Legislation suspended cost of living increases to retirees until excess benefit payments were off-set and provided that any excess amounts paid were to be classified as administrative expenses chargeable against future earnings of non-retired members' accounts. Some public employees filed an appeal in the *City of Eugene* case. Subsequent to the trial court's ruling, the parties' appeals, and the 2003 PERS Legislation, the PERB and various public employers entered into a settlement agreement in which the PERB agreed, in general, to comply with the trial court's ruling, as modified by the terms of the 2003 PERS Legislation.

The PERB actuary estimated at the end of March that as a result of the Strunk Decision, the system-wide unfunded actuarial liability ("UAL") as of December 31, 2003, increased by approximately \$2.1 billion and that system-wide employer contribution rates would

need to increase by approximately 2.4% of covered payroll to eliminate the estimated increase in the UAL. The PERB actuary also previously determined that if the Oregon Supreme Court upholds the trial court ruling in the City of Eugene case, the estimated \$2.1 billion increase in the UAL could be substantially reduced. The PERB has not yet determined the amount of any change in employer contribution rates as a result of the Strunk Decision and the City of Eugene case.

Moreover, the UAL may be further increased, or decreased, depending on a variety of factors, including the investment performance of the PERS fund, the use of reserves, and the outcome of the federal cases and other cases challenging the PERB's settlement of the City of Eugene case. In the federal case, if the Ninth Circuit reverses the trial court, those portions of the 2003 PERS Legislation that were upheld by the Oregon Supreme Court in the Strunk Decision under the Oregon constitution would be overturned under the U.S. constitution. The City believes, however, that there are strong arguments for upholding the trial court's decision in the federal case. The PERB has the option to set aside sufficient reserves to off-set all or nearly all of any estimated increase in the UAL. The PERB is not required to use its reserves to off-set any increase in the UAL and may choose to retain all or a portion of its reserves for other purposes.

The City does not expect any increase in employer contribution rates that may be imposed by the PERB to take effect before the 2007-2009 biennium.

Fire and Police Disability and Retirement Fund

Most of the fire and police personnel are covered under the City's Fire and Police Disability and Retirement ("FPDR") Fund. The FPDR Fund is financed from a special property tax levy of not less than \$1.00 or more than \$2.80 per \$1,000 of real market value of property in the City. In the event that the special property tax levy is insufficient to pay benefits because benefits paid exceed the \$2.80 per \$1,000 limit, then other City funds would be required to make up the difference. The FY 2005-06 levy of \$86,597,962 for pension purposes requires a tax rate of \$2.3293 per \$1,000 of assessed property value, or approximately \$1.33 per \$1,000 of real market value.

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

As of July 1, 2005, the unfunded actuarial liability of the FPDR Fund was \$1,669,337,160. In consultation with its external auditor, the City recently reviewed the discount rate and assumptions utilized in the calculations of the actuarial valuation, actuarial accrued pension liabilities, and net pension obligation, and determined they should be revised to more closely match the funding and investment returns that could be achieved by the City under existing law, and further assuming that it could collect funds to pay pension liabilities in advance of when they come due. As a result, the City revised the discount rate used to value the FPDR Fund liabilities to 6.63% from 8.0%. This change was a primary reason for the increase in the unfunded actuarial liability of the FPDR Fund by approximately \$395 million between July 1, 2004 and July 1, 2005.

In February 2005, the City created an independent Citizen Review Committee to oversee a comprehensive analysis of the FPDR system. This committee presented recommendations to the City Council in January 2006. The recommendations include placing newly hired public safety personnel in the OPSRP, rather than the FPDR system, and processing new disability claims for public safety officers through the workers compensation program administered by the City. The City Council, through a resolution adopted on January 11, 2006, has formed an implementation team to develop ballot title language amending the Charter regarding pension and disability changes, which is expected be brought to the voters in November 2006.

FUND ACCOUNTING SYSTEM

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

Sewer System Operating Fund

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

Environmental Remediation Fund

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

Sewer System Construction Fund

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

Sewer System Debt Redemption Fund

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

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

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

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

HISTORICAL REVENUES AND EXPENDITURES

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

Table 6
CITY OF PORTLAND, OREGON
Sewer System
Historical Operating Results (1)

Fiscal Year	2000-01	2001-02	2002-03	2003-04	2004-05
(In thousands of dollars, except for debt service coverage)					
GROSS REVENUES (1)					
Total Operating Revenues	\$130,296	\$150,035	\$154,443	\$166,407	\$175,716
Interest Earnings	8,488	4,211	1,612	2,585	3,531
System Development Charges	5,685	7,320	9,242	8,271	9,361
Cash Transfers In -					
Rate Stabilization Fund (2)	3,975	5,275	0	362	0
Other Funds	1,777	4,496	1,922	3,003	3,164
TOTAL GROSS REVENUES	\$150,221	\$171,337	\$168,858	\$180,628	\$191,772
OPERATING EXPENSES					
Operating Expenses (3) (4)	\$68,562	\$79,276	\$67,340	\$69,747	\$72,072
Cash Transfers Out -					
Rate Stabilization Fund (2)	0	0	5,175	9,187	6,100
TOTAL OPERATING EXPENSES	\$68,562	\$79,276	\$72,515	\$78,935	\$78,172
NET REVENUES	\$81,659	\$92,060	\$96,343	\$101,694	\$113,600
DEBT SERVICE					
First Lien Bonds	\$56,494	\$61,379	\$61,385	\$56,576	\$53,447
Second Lien Bonds	0	0	0	\$9,598	\$13,557
TOTAL DEBT SERVICE	\$56,494	\$61,379	\$61,385	\$66,174	\$67,004
DEBT SERVICE COVERAGE (5)					
First Lien Bonds	1.45x	1.50x	1.57x	1.80x	2.13x
First and Second Lien Bonds	N/A	N/A	N/A	1.54x	1.70x

Notes:

- (1) As defined in the First Lien Bond Ordinance.
- (2) Transfers from the Rate Stabilization Fund are used to balance coverage to the planning standard. (See "FINANCIAL POLICIES AND PLANNING STANDARDS – Use of Rate Stabilization Fund.")
- (3) Excluding depreciation expense.
- (4) Operating expenses in FY 2001-02 include an increase of \$13.6 million in allowance for uncollectible debt associated with a new customer billing system. (See "USER CHARGE BILLING AND COLLECTION SYSTEM.")
- (5) From FY 1998-99 through FY 2001-02 the Bureau's planning standard for debt service coverage on First Lien bonds was 1.45. Beginning with FY 2002-03, the coverage planning standard on First Lien bonds was increased to 1.50.

Source: Bureau of Environmental Services.

Table 7
CITY OF PORTLAND, OREGON
Sewer System
Interim Financial Results (Unaudited)
For Accounting Period Ending AP 9 March 8, 2006

	Partial Year FY 2005-06
Operating Revenues:	
Services Charges and fees	\$134,007,178
Licenses and permits	626,382
Rents and reimbursements	39,575
Miscellaneous	1,775,424
Total operating revenues	\$136,448,559
Operating Expenses:	
Salaries and wages	\$27,033,324
Operating supplies	2,006,450
Professional services	10,375,302
Internal Services	22,549,264
Repairs and Maintenance	463,020
Utilities	2,881,205
Other Services	4,626,366
Insurance	668,792
Travel Expense	54,899
Miscellaneous	6,233,168
Total operating expense	\$76,891,790
Operating income (loss)	\$59,556,769
Non-Operating Revenues (Expenses):	
Interest on investments	\$3,131,375
Interest expense	(29,663,779)
Gain (loss) on disposal of fixed assets	114,277
Miscellaneous	-
Operating transfers in (out)	(6,885,063)
Total Non-Operating Revenue (Expense)	\$(33,303,190)
Net Income (loss)	\$26,253,579
Retained Earnings, July 1, 2005	\$874,486,552
Retained Earnings, March 8, 2006	\$900,740,131

Notes:

- (1) Figures are preliminary and unaudited, based on Accounting Period 9, ending March 8, 2006. There are 13 accounting periods in the City of Portland fiscal year. Accounting period 8 is approximately 61% year elapsed.

Source: Bureau of Environmental Services.

USER CHARGE BILLING AND COLLECTION SYSTEM

Ratemaking and Authorization

Section 11-302 of the City Charter authorizes the City Council to fix fees and charges for connection to and use of the Sewer System. Sewer user fees and connection charges are formally reviewed every year by the Bureau. Rates required to support proposed activities and meet all obligations to bondholders under the Ordinance are submitted annually by the Director of the Bureau to the City Council for review and approval. No governmental approval, other than the City Council's, is required. The City Council approved an average increase of approximately 5.9 percent to fees and charges for FY 2005-06 in May 2005. Over the last 20 years, rate increases have averaged 9.7 percent annually. The largest increases occurred in FY 1991-92 when average monthly residential bills rose 24%, from \$11.40 to \$14.15, and 22% the following year, to \$17.20 per month.

Billings and Collections

In February 2005 the billing and collection services for the City's sewer, stormwater and water systems were transferred to the Office of Management and Finance ("OMF"). In September 2005 these functions along with licenses and liens were consolidated into the newly-created Revenue Bureau within OMF. OMF was also responsible for implementation of the new billing system that replaced the Open Vision ("OV") billing system. (See "Replacement of OV Billing System" below.)

Sewer System billings and collection services for retail customers, provided by the City's Revenue Bureau, are on a quarterly cycle for approximately 163,300 accounts, a bimonthly cycle for approximately 5,300 accounts, and on a monthly basis for 6,300 large user accounts. Bills sent to customers include separate line items for sewer, stormwater, and water services.

The approximately 5,300 bimonthly sewer accounts mentioned above receive water from the Rockwood Water People's Utility District, or the Lorna Water District. Since they are not City water customers, there is no water shutoff option for collection of delinquent sewer bills for these customers. Liens have been used for owner-occupied single family properties. (See "Financial Impacts" below.) Past due balances currently total approximately \$1.2 million for this group, approximately 9.8 percent of total sewer and stormwater past due balances.

Wholesale customers are billed at various times during a fiscal year ranging from bi-monthly to quarterly. As of June 30, 2005, no wholesale customer was delinquent with respect to billed charges.

Open Vision Customer Billing System

Approximately \$258 million in annual user charge revenues for the Bureau and the Water Bureau will be billed in FY 2005-06 through a billing system managed by the Revenue Bureau. Prior to 2005, the Water Bureau performed billing and collections activities for the water and sewer utilities. In 1997, the Water Bureau began planning to replace its 20-year-old customer billing and information system. The Water Bureau selected Severn Trent Systems ("STS") of Houston, Texas to provide and install its OV system. The OV system was intended to meet the Water Bureau's specific needs as a water utility and as the billing agent for the Bureau.

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

By February 2001, one year after "going live," approximately 38,000 accounts (22 percent of total accounts) were still not billing properly. Efforts by both City and STS personnel resulted in a reduction in problem accounts to approximately 12,000 by June 2001. By January 2003 accounts not billing or with delayed billings had returned to normal levels.

The City and STS reached a settlement related to the losses incurred by the City with the OV system. STS paid the City \$7.0 million, split equally between the Water Bureau and the Bureau. The City and STS entered into a Software License and Maintenance Agreement that expired on October 31, 2005. The City negotiated an extension of this Agreement for system support during the transition to a new billing system, which occurred on April 10, 2006. (See "Replacement of OV Billing System" below.) The maintenance agreement was allowed to expire. Although the OV system will continue to operate, it will do so in a frozen state to

provide historical customer account information. For that reason it was not judged cost-effective to extend the maintenance agreement.

Although the current OV system has reached stability and has lowered system risks to a manageable level, the City is replacing the system, in accordance with a recommendation from TMG Consulting, since it is unlikely to be able to achieve the functionality desired by the City, and has required considerably more staff resources to operate than was anticipated (See "Replacement of OV Billing System" below.)

Financial Impacts

Unbilled and late-billed accounts have resulted in a reduction in billings and cash receipts since implementation of the OV system in February 2000. Through the end of FY 2000-01, cumulative system billings and cash receipts since implementation of the OV system were below the Bureau's budget projections by 15 percent and 17 percent respectively, and receivables were much higher than their expected level of approximately one month's revenue. With nearly 100% of customer accounts now receiving timely and accurate bills, coupled with the implementation of automated debt recovery processes the Bureau's billings and cash receipts for FY 2004-05 have returned to normal, and net receivables have been reduced from \$36.3 million as of June 30, 2001, to \$15.8 million as of June 30, 2005.

Problems associated with the OV system had also resulted in additional operating expenses incurred by both the Water Bureau and the Bureau, primarily for hiring temporary employees to answer customer concerns about missing bills, large catch-up bills, and large past due balances. These expenses are continuing, however, it is expected that by July 1, 2006, a total reduction of 22 FTE will be realized since 2003. An additional 15 FTE reductions are expected to occur by July 1, 2007, due to efficiencies built into the replacement system. The City estimates that maintaining OV for three years following the implementation of the new billing system will cost approximately \$90,000 per year for information technology support.

The Bureau's financial projections include an allowance for uncollectibles of \$7.2 million, or approximately 30 percent of total receivables as of June 30, 2005. To enhance the effectiveness of planned debt recovery efforts, the City has used its ability under state law to place a lien on properties of sewer customer accounts where water cannot be shut off. In June 2004 approximately \$1.5 million in delinquent sewer and stormwater balances was certified to the County Assessor for inclusion in November property tax bills. These liens are for owner-occupied single-family residences. The City has explored the feasibility of placing liens on rental properties as well, but has elected to pursue collection for these accounts through an external collection agency. The Revenue Bureau continues to explore other legal means of collection.

Replacement of OV Billing System

The City has replaced the OV billing system, as it has been unable to achieve the desired functionality and has required considerably more staff resources to operate than was anticipated. The City selected TMG Consulting to assist in selecting a replacement system, and Management Systems Utilities Group ("MSUG") for project management consulting services during vendor selection and implementation. Cayenta Canada, Inc. was selected as the replacement software system vendor. Implementation of the replacement project was managed by OMF, with consulting assistance by MSUG, and independent Quality Assurance reviews by Pacific Consulting Group. In addition, Moss Adams LLP, the City's external financial auditor, was engaged to perform certain agreed-upon procedures related to the Cayenta Utility Billing System. The procedures were designed to answer questions related to data conversion, bill calculation, transaction recording and posting to the City's General Ledger, reporting, and reconciliation procedures. Their report, dated November 18, 2005, included findings that have either been addressed or have not adversely affected the start up of the new system. Moss Adams LLP will also be evaluating the adequacy of internal Cayenta system security controls, and will evaluate the City's implementation of those controls during their financial audit for the 2005-06 fiscal year. The system went live without incident on April 10, 2006, although at least six months of stable operation will be necessary before the implementation is judged successful.

Costs for the replacement system are estimated to be approximately \$11.5 million for "basic" level functionality, including City staff time. The implementation plan assumes that an enhanced level of functionality will be acquired during subsequent years. The Water Bureau and the Bureau are sharing costs of the new system.

Rate Reform

In 1999, in response to citizen concerns about affordability of water, sewer, and stormwater bills, the City Council instructed the Bureau to develop proposals for changing sewer and stormwater rate structures to enhance the affordability and controllability of sewer and stormwater charges for residential customers. After a yearlong process including extensive public involvement, the Bureau proposed several alternative rate structures to the City Council. The City Council directed the Bureau to implement its preferred option for rate reform in a Resolution passed in April 2000. The Resolution directed the Bureau to make several significant changes:

To enhance affordability and controllability of sewer bills, account service charge for sewer and stormwater was reduced to reflect only the direct costs of billing, collection, meter reading, and customer service. Other costs, including Bureau overhead and certain public information costs, were to be recovered through sanitary volume and stormwater charges. The rate structure for FY 2000-01 and beyond reflects this change. The rate structure change resulted in a shift in revenue requirements away from low-volume users toward higher-volume users. Partly as a result of this change, the average single family monthly residential water and sewer bill increased by only 4.9 percent for FY 2000-01.

To reflect the contributions to stormwater management made by individuals who install stormwater facilities on site, the City Council directed the Bureau to develop a discount program for stormwater charges. The Bureau has developed and the City Council has approved the structure of the program. Implementation of the discounts has been delayed until the replacement customer billing system is fully implemented. (See “Replacement of OV Billing System” above.)

The City Council has determined that when the stormwater discount program is implemented, customers who apply for and receive discounts during the first twelve months of the program should be granted the discounts for a retroactive period of one year. The exact starting date of the discounts depends on successful implementation of the new billing system (see “Replacement of OV Billing System” above), but the Bureau has included an estimate of the one-time cost of these one-year retroactive payments be approximately \$9 million. The cost will be recovered from ratepayers through stormwater charges.

Low Income Discounts

The City Council has expressed concern regarding the cost impacts of water and sewer bills to low-income households. In May 1997, after twelve months of research and analysis the City Council approved an expanded version of the existing low-income assistance program, which was implemented July 1, 1997. Program enhancements included extending eligibility to multifamily customers paying their own water/sewer bills, no charge for monthly billing for residential accounts (normally billed quarterly), enhanced assistance for leak repair, a program coordinator to oversee increased marketing efforts, and enhanced accessibility. The bill discount is 30 percent of a typical low-income customer bill, which lowers sewer bills for eligible residential households by approximately \$17.57 per month or \$210.84 per year for the current fiscal year. Funding is provided by adjusting rates for all classes of customers upward to offset the revenue reductions from the low-income discount program. Total sewer revenue redistribution from low-income discount rates is estimated at approximately \$949,000 per year.

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

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

It is expected that any necessary funding increase will be presented as part of the FY 2006-07 budget process.

Wholesale Rates

The City currently provides contractual services to one major wholesale customer, the City of Lake Oswego, Oregon, and several smaller wholesale customers, including county service districts and portions of two other cities. Each wholesale service contract provides for full cost recovery during the life of the contract. Charges to wholesale customers were \$2,952,914 for FY 2004-05, which, by comparison, was approximately 0.86 percent of total System revenues.

Table 8
CITY OF PORTLAND, OREGON
Sewer System
Historical Monthly Rates and Charges

Fiscal Year	2000-01 ⁽¹⁾	2001-02	2002-03	2003-04	2004-05
<u>CUSTOMER CLASS</u>					
<u>Residential</u>					
Account Service (\$/account)	1.75	2.24	2.71	3.08	3.16
Sanitary Volume (\$/ccf)	3.76	4.10	4.46	4.74	4.99
Impervious Area Charge (\$/1000 sq. ft.)	4.17	4.57	4.76	5.04	5.54
Average Single-Family Monthly Bill(\$/account) (2)	30.01	33.40	35.89	37.11	40.12
<u>Commercial</u>					
Sanitary Volume (\$/ccf)	3.933	4.242	4.585	4.868	5.138
Cooling (Clean) Water					
To Combined Sewer (\$/ccf)	2.599	4.242	4.585	4.868	5.138
To Storm Sewer (\$/ccf)	0.417	0.457	0.476	0.505	0.557
Impervious Area Charge (\$/1000 sq. ft.)	4.630	5.00	5.17	5.54	6.06
Billing Charge-Monthly/Quarterly (3)	5.170	7.17	8.60	9.69	10.00
Extra Strength					
Biochemical Oxygen Demand (\$/lb.)	0.388	0.405	0.437	0.463	0.492
Suspended Solids (\$/lb.)	0.467	0.487	0.562	0.554	0.591
<u>Capital Charges (4)</u>					
Sanitary System Development Charge (\$/EDU)	1,972	2,139	2,275	2,420	2,680
Year-to-Year Percentage Increase					
Of Avg. Single-Family Monthly Bill	4.9%	10.0%	7.0%	6.2%	5.9%

Notes:

- (1) FY 2000-01 charges effective August 1, 2000; all other charges effective July 1 of each year.
- (2) Average bills have been restated to reflect average annual billed consumption, which is lower than winter average use.
- (3) Beginning in FY 2000-01, the commercial account service charge is calculated per bill for both quarterly and monthly accounts.
- (4) Abbreviations used in the table include the following: "ccf" (hundred cubic feet) and "EDU" (Equivalent Dwelling Units).

Source: Bureau of Environmental Services.

Major Retail Users

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

Table 9
CITY OF PORTLAND, OREGON
Sewer System
Largest Bureau Customers (FY 2004-05)

<u>CUSTOMER</u>	<u>Total Sewer Charge</u>	<u>Percentage of Rate Revenues</u>
Portland Public Schools	\$1,694,597	1.00%
Wacker Siltronic Corp.	1,572,597	0.92
Oregon Health Sciences University	1,354,858	0.80
Housing Authority of Portland	957,265	0.56
Westfarm Foods	869,922	0.51
Precision Castparts	848,920	0.50
Bay Valley Foods	800,638	0.47
Swan Island Dairy	786,313	0.46
American Property Management	736,283	0.43
Multnomah County Facilities & Properties	709,977	0.42
Total	<u>\$10,331,370</u>	<u>6.07%</u>

Source: City of Portland.

OUTSTANDING SEWER SYSTEM DEBT

Revenue Bonds

Upon the issuance of the 2006 Bonds, the City expects to have a total of \$1,262,210,000 of Sewer System First and Second Lien Bonds outstanding. The following table shows outstanding First and Second Lien Bonds as of the delivery of the 2006 Bonds.

**Table 10
CITY OF PORTLAND, OREGON
Sewer System
Outstanding First and Second Lien Bonds**

<u>Issue</u>	<u>Dated</u>	<u>Final Maturity</u>	<u>Original Par Amount</u>	<u>Amount Outstanding</u>
First Lien Bonds				
1996 Series A	11/1/1996	6/1/2006	\$110,000,000	\$1,655,000
1997 Series A Refunding	8/15/1997	6/1/2015	262,500,000	237,620,000
1998 Series A	9/15/1998	6/1/2018	160,000,000	133,110,000
2004 Series A Bonds	11/30/2004	10/1/2024	163,500,000	158,490,000
2004 Series B Bonds	11/30/2004	6/1/2017	93,080,000	93,080,000
2005 Series A Bonds	6/16/2005	8/1/2020	144,850,000	144,850,000
2006 Series A Bonds	5/25/2006	6/15/2031	177,845,000	177,845,000
<i>Subtotal</i>			<u>\$1,111,775,000</u>	<u>\$946,650,000</u>
Second Lien Bonds				
2003 Series A Bonds	4/3/2003	6/1/2023	\$88,370,000	\$78,425,000
2003 Series B Bonds	6/12/2003	6/1/2023	150,000,000	150,000,000
2006 Series B Bonds	5/25/2006	6/15/2031	87,135,000	87,135,000
<i>Subtotal</i>			<u>\$325,505,000</u>	<u>\$315,560,000</u>
<i>Total</i>			<u><u>\$1,437,280,000</u></u>	<u><u>\$1,262,210,000</u></u>

Source: City of Portland.

The following table shows the Sewer System's expected annual debt service requirements associated with outstanding First Lien Bonds and Second Lien Bonds anticipated to be issued as of the Date of Delivery of the 2006 Bonds.

Table 11
CITY OF PORTLAND, OREGON
Sewer System Revenue Bonds
Annual Debt Service Requirements

Fiscal Year	2006 Series A	Outstanding	Total	2006 Series B	Outstanding	Total	
Ending	Bond	First	First	Bond	Second	Second	
30-Jun	Debt Service	Lien Bond	Lien Bond	Debt Service (1)	Lien Bond	Lien Bond	Total
		Debt Service	Debt Service		Debt Service	Debt Service	Debt Service
2006	\$0	\$61,931,556	\$61,931,556	\$0	\$18,233,221	\$18,233,221	\$80,164,777
2007	12,226,688	64,404,725	76,631,413	6,115,046	18,587,825	24,702,871	101,334,284
2008	12,226,994	65,087,525	77,314,519	6,117,425	18,582,075	24,699,500	102,014,019
2009	12,227,744	65,095,475	77,323,219	6,116,175	18,237,721	24,353,896	101,677,115
2010	12,228,494	65,090,200	77,318,694	6,115,175	18,928,929	25,044,104	102,362,798
2011	12,228,744	72,856,750	85,085,494	6,114,175	10,943,471	17,057,646	102,143,140
2012	12,227,994	72,855,050	85,083,044	6,117,925	11,640,404	17,758,329	102,841,373
2013	12,230,744	72,861,188	85,091,931	6,115,925	10,945,371	17,061,296	102,153,227
2014	12,226,244	72,844,375	85,070,619	6,118,175	11,290,713	17,408,888	102,479,506
2015	12,229,244	72,857,225	85,086,469	6,114,175	11,293,400	17,407,575	102,494,044
2016	12,228,744	72,849,775	85,078,519	6,113,925	11,294,263	17,408,188	102,486,706
2017	12,229,244	72,876,625	85,105,869	6,116,925	11,293,038	17,409,963	102,515,831
2018	12,229,994	73,720,825	85,950,819	6,117,675	10,943,108	17,060,783	103,011,602
2019	12,230,244	64,770,725	77,000,969	6,115,925	19,217,067	25,332,992	102,333,961
2020	12,228,344	64,779,725	77,008,069	6,116,425	18,389,672	24,506,097	101,514,165
2021	12,227,719	64,763,725	76,991,444	6,113,675	18,733,960	24,847,635	101,839,079
2022	12,228,388	12,779,863	25,008,250	6,117,425	71,654,114	77,771,539	102,779,789
2023	12,228,100	12,788,750	25,016,850	6,116,925	71,838,675	77,955,600	102,972,450
2024	12,225,975	12,780,000	25,005,975	6,116,925	-	6,116,925	31,122,900
2025	12,230,563	12,781,750	25,012,313	6,116,925	-	6,116,925	31,129,238
2026	12,230,675	-	12,230,675	6,116,425	-	6,116,425	18,347,100
2027	12,225,600	-	12,225,600	6,114,925	-	6,114,925	18,340,525
2028	12,229,150	-	12,229,150	6,116,925	-	6,116,925	18,346,075
2029	12,227,675	-	12,227,675	6,116,675	-	6,116,675	18,344,350
2030	12,230,500	-	12,230,500	6,115,475	-	6,115,475	18,345,975
2031	12,226,500	-	12,226,500	6,118,475	-	6,118,475	18,344,975
	\$305,710,300	\$1,150,775,832	\$1,456,486,132	\$152,905,846	\$382,047,026	\$534,952,872	\$1,991,439,004

Notes:

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

Source: City of Portland.

(End of Annual Disclosure Information)

PROJECTED REVENUES AND EXPENDITURES

Sewer System historical and forecast operating results are shown in the tables which follow. In general, the results reflect continued high levels of investment in CSO control, and relatively moderate growth in operating expenditures. The financial forecast through FY 2009-10 has been developed in conformance with the Bureau’s financial policies and planning standards. (See “FINANCIAL POLICIES AND PLANNING STANDARDS.”)

ASSUMPTIONS

Key assumptions underlying the revenue forecast through FY 2010-11 include:

- Annual rate increases of 5.50 to 5.55 percent over the forecast interval;
- System development charge revenues will average \$7.0 million annually;
- Annual growth of 0.5 percent in the number of accounts within the City;
- Planned debt service coverage ratios of at least 1.50 on First Lien Bonds and 1.30 on First and Second Lien Bonds combined; and
- An operating reserve equal to 10 percent of operating expenses for unforeseen financial needs.

Key assumptions underlying the cost forecast include:

- 2.21 percent annual inflation for external materials and services;
- 3.13 percent for personal services, (3.80 percent in FY 2006-07); and
- 3.13 percent for internal materials and services.

Assumptions underlying the debt forecast include:

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

<u>Fiscal Year</u>	<u>Amount</u>
2006-07	\$0
2007-08	274,390,000
2008-09	0
2009-10	195,970,000
2010-11	<u>0</u>
TOTAL	<u>\$470,260,000</u>

All amounts shown are assumed to be First Lien Bonds. The City may choose to issue Second Lien Bonds in future fiscal years where First Lien Bonds are currently assumed.

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

USE OF RATE STABILIZATION FUND

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

Table 12
CITY OF PORTLAND, OREGON
Sewer System
Historical and Projected Rate Stabilization
Ending Fund Balance (1) (2)

Fiscal Year	Ending Balance
1999-00	\$11,456,467
2000-01	7,980,169
2001-02	3,028,123
2002-03	8,466,233
2003-04	17,250,854
2004-05	20,498,158
2005-06	Forecast 35,474,184
2006-07	Forecast 33,130,181
2007-08	Forecast 46,720,218
2008-09	Forecast 39,880,553
2009-10	Forecast 40,713,051
2010-11	Forecast 26,359,716
2011-12	Forecast 20,865,548
2012-13	Forecast 11,323,781
2013-14	Forecast 13,564,676
2014-15	Forecast 10,841,206

Notes:

- (1) Balances reflect transfers to and from the Sewer System Operating Fund as well as interest earnings on Rate Stabilization Fund balances.
- (2) Rate smoothing policy is reflected in the drawing down of fund balance from FY 2000-01 through FY 2001-02. Increases in fund balance from FY 2002-03 onward reflects decision to increase the minimum balance held in the Rate Stabilization Fund as a contingency for unforeseen expenditures, and to build fund balance for the purpose of smoothing rate increases beyond the five-year forecast interval. Fund balances are projected to be drawn down over eight years beginning FY 2008-09, to a minimum balance of \$10.8 million in FY 2014-15.

Source: Bureau of Environmental Services.

Table 13
CITY OF PORTLAND, OREGON
Sewer System
Forecast Customer Accounts

Fiscal Year	Current 2005-06	Forecast 2006-07	Forecast 2007-08	Forecast 2008-09	Forecast 2009-10	Forecast 2010-11
Customer Class						
Residential						
Single Family	147,085	147,821	148,560	149,303	150,050	150,800
Multi Family						
Monthly	1,787	1,795	1,805	1,814	1,823	1,832
Quarterly	9,115	9,162	9,207	9,253	9,299	9,345
TOTAL RESIDENTIAL	157,987	158,778	159,572	160,370	161,172	161,977
Commercial						
Monthly	3,193	3,209	3,225	3,241	3,257	3,273
Quarterly	9,733	9,782	9,831	9,880	9,929	9,979
Extra Strength	49	49	49	49	49	49
Commercial Clean Water to Storm Sewer	15	15	15	15	15	15
TOTAL COMMERCIAL	12,990	13,055	13,120	13,185	13,250	13,316
Total Forecast Accounts	170,977	171,833	172,692	173,555	174,422	175,293

Source: Bureau of Environmental Services.

Table 14
CITY OF PORTLAND, OREGON
Sewer System
Current and Forecast Monthly Rates and Charges (1)

Fiscal Year	Current 2005-06	Forecast 2006-07	Forecast 2007-08	Forecast 2008-09	Forecast 2009-10	Forecast 2010-11
<u>CUSTOMER CLASS</u>						
<u>Residential</u>						
Standard Account Service (\$/Account)	3.19	3.37	3.55	3.75	3.96	4.17
Sewer Only Account Service (\$/Account)	2.94	3.10	3.28	3.46	3.65	3.85
Sanitary Volume (\$/ccf)	5.30	5.68	6.09	6.52	6.98	7.48
Impervious Area Charge (\$/1000 sq. ft.)	5.94	6.27	6.62	6.98	7.37	7.77
Average Single-Family Monthly Bill (\$/Account) (2)	42.89	49.56	52.31	55.19	58.22	61.43
<u>Commercial</u>						
Sanitary Volume (\$/ccf)	5.431	5.811	6.218	6.650	7.114	7.611
Cooling (Clean) Water To Storm Sewer (\$/ccf)	0.591	0.624	0.658	0.695	0.733	0.773
Impervious Area Charge (\$/1000 sq. ft.)	6.45	6.81	7.19	7.58	8.00	8.44
Billing Charge – Monthly & Quarterly	10.61	11.20	11.82	12.47	13.16	13.88
<u>Extra Strength</u>						
Biochemical Oxygen Demand (\$/lb.)	0.457	0.482	0.509	0.537	0.567	0.598
Suspended Solids (\$/lb.)	0.559	0.590	0.623	0.657	0.693	0.731
<u>Capital Charges (3)</u>						
Sanitary Sewer SDC (\$/EDU)	2,830	3,000	3,180	3,371	3,573	3,787
Forecast Year-to-Year Percentage Increase of Avg. Single-Family Monthly Bill	5.88%	5.55%	5.55%	5.50%	5.50%	5.50%

Notes:

- (1) Abbreviations used in the table include the following: “ccf” (hundred cubic feet) and “EDU” (Equivalent Dwelling Units).
- (2) Average bills have been restated to reflect average annual billed consumption, which is lower than winter average use.
- (3) Capital charges for FY 2006-07 and beyond are estimated; state law requires that these fees to be based on actual capital projects completed, thus they are computed annually.

Source: Bureau of Environmental Services.

COMPARISON OF MONTHLY RESIDENTIAL BILLS

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

Table 15
CITY OF PORTLAND, OREGON
Sewer System
Comparison of Average Monthly Sewer and Stormwater Bills
For Single Family Residential Monthly Customers (1)

<u>Local/Regional (2)</u>	<u>Monthly Bill</u>
Puyallup, WA	\$54.94
Yachats, OR	50.75
McMinnville	49.24
Olympia, WA	47.13
Tacoma, WA	46.77
Seattle, WA	46.49
Portland	42.89
Vancouver, WA	36.53
Beaverton	34.65
Lake Oswego	32.58
Salem	32.49
Corvallis	32.35
Milwaukie	31.75
Washington County	31.65
Tigard	31.65
Gresham	30.87
Clackamas County	28.00
Ashland	26.82
Eugene	25.21
National	
Juneau, AK	\$54.91
Atlanta, GA	45.63
Knoxville, TN	44.87
Portland	42.89
Honolulu, HI	42.40
Sacramento, CA	40.07
Cincinnati, OH	39.07
Charlotte, NC	38.73
San Diego, CA	36.12
Richmond, VA	35.67
Boston	29.38
San Francisco, CA	29.35
Kansas City	22.54
Denver, CO	20.76

Notes:

- (1) As of March 2006. Bills are calculated based on average sewer usage as reported by agency.
- (2) Unless indicated otherwise, local/regional utilities are within Oregon.

Source: Bureau of Environmental Services.

HISTORICAL AND PROJECTED RESULTS OF FINANCIAL OPERATIONS

Tables 16 and 17 show historical and projected results of the Sewer System's financial operations for FY 2000-01 through FY 2010-11. As shown in Table 17, total operating revenues grow at an average annual rate of 5.5 percent over the forecast interval, from the current year's projection of \$188.4 million to \$246.3 million in FY 2010-11. Service charges and fees are the largest component of operating revenues. Their growth from \$181.3 million to \$240.1 million over the same interval (an annual average increase of 5.8 percent) reflects forecast rate increases averaging 5.52 percent, 0.5 percent growth in the number of accounts served, and continued water conservation by residential and commercial customers. Total gross revenues are forecast to increase from the current year projection of \$209.1 million to \$284.0 million, an annual average increase of 6.3 percent.

Forecast Operating Expenses increase from the current year's projection of \$85.8 million to \$100.1 million in FY 2010-11, an annual average increase of 3.1 percent, reflecting moderate growth in the Bureau's operating program. As noted above, Utility License Fees were subordinated to the payment of debt service for First Lien Bonds and Second Lien Bonds beginning in FY 2001-02. Therefore, they are not included in the Operating Expenses category in the forecast.

Net Revenues are forecast to increase from the current year's projected \$123.3 million to \$183.9 million in FY 2010-11, an average annual increase of 8.3 percent. Debt service requirements are projected to increase from the current \$77.4 million to \$139.5 million in FY 2010-11. During the forecast period, the Bureau expects to maintain debt service coverage at or above the 1.50 policy standard on the First Lien Bonds, and to meet or exceed the 1.30 policy standard on the First and Second Lien Bonds combined.

Table 16
CITY OF PORTLAND, OREGON
Sewer System
Historical Operating Results

Fiscal Year	2000-01	2001-02	2002-03	2003-04	2004-05
(In thousands of dollars)					
GROSS REVENUES					
Operating Revenues:					
Service Charges & Fees	\$126,470	\$146,372	\$146,369	\$161,894	\$170,228
Wholesale Contracts	2,587	2,660	2,740	2,840	2,949
Other Service Charges & Miscellaneous	1,239	1,003	5,334	1,673	2,539
Total Operating Revenues	130,296	150,035	154,443	166,407	175,716
System Development Charges	5,685	7,320	9,242	8,271	9,361
Interest Earnings	8,488	4,211	1,612	2,585	3,531
Cash Transfers In -					
Rate Stabilization Fund (1)	3,975	5,275	0	362	0
Other Funds	1,777	4,496	3,560	3,003	3,164
TOTAL GROSS REVENUES (2)	\$150,221	\$171,337	\$168,857	\$180,628	\$191,772
OPERATING EXPENSES (3)					
Personal Services	\$22,277	\$25,932	\$27,714	27,696	\$29,510
Materials and Services	10,724	20,657	14,595	20,785	15,590
Internal Services	20,416	21,326	29,810	28,406	29,293
Capitalized Overhead	0	(6,144)	(6,801)	(6,035)	(7,785)
Cash Transfers Out -					
General Fund Overhead	1,803	1,496	2,499	2,155	2,610
General Fund – Utility License Fee (4)	8,588	0	0	0	0
Rate Stabilization Fund	0	0	5,175	9,187	6,100
Other (5)	4,754	16,010	(477)	(3,259)	2,854
TOTAL OPERATING EXPENSES	\$68,562	\$79,277	\$72,515	\$78,935	\$78,172
NET REVENUES	\$81,659	\$92,060	\$96,343	\$101,694	\$113,600
DEBT SERVICE FOR COVERAGE					
First Lien Bonds	\$56,494	\$61,379	\$61,385	\$56,576	\$53,447
Second Lien Bonds	0	0	0	9,598	13,557
TOTAL DEBT SERVICE	\$56,494	\$61,379	\$61,385	\$66,174	\$67,004
DEBT SERVICE COVERAGE					
First Lien Bonds (6)	1.45x	1.50x	1.57x	1.80x	2.13x
First and Second Lien Bonds	N/A	N/A	N/A	1.54x	1.70x

Notes:

- (1) The Rate Stabilization Fund was created in FY 1987-88, under the authority of the First Lien Bond Ordinance.
- (2) As defined in the First Lien Bond Ordinance.
- (3) As defined in the First Lien Bond Ordinance. Excludes depreciation.
- (4) Beginning in FY 2001-02, the Utility License Fee is subordinated to the payment of debt service on the First and Second Lien Bonds.
- (5) Operating expenses in FY 2001-02 include an increase of \$13.6 million in allowance for uncollectible debt associated with the OV billing system.
- (6) In FY 2000-01 the Bureau's planning standard for debt service coverage on First Lien bonds was 1.45, but was increased to 1.50 in FY 2001-02.

Source: Bureau of Environmental Services.

Table 17
CITY OF PORTLAND, OREGON
Sewer System
Projected Operating Results

Fiscal Year	Projected 2005-06	Forecast 2006-07	Forecast 2007-08	Forecast 2008-09	Forecast 2009-10	Forecast 2010-11
(In thousands of dollars)						
GROSS REVENUES						
Operating Revenues:						
Service Charges & Fees	\$181,264	\$182,110	\$202,400	\$214,242	\$226,821	\$240,148
Wholesale Contracts	3,037	3,207	3,319	3,435	3,555	3,679
Other Service Charges & Miscellaneous	4,117	3,484	2,302	2,284	2,356	2,430
Total Operating Revenues	188,418	188,802	208,021	219,962	232,732	246,257
System Development/Line & Branch Charges	10,577	8,100	9,996	10,512	11,053	11,721
Interest Earnings	4,958	11,566	11,459	8,339	6,458	4,770
Cash Transfers In -						
Rate Stabilization Fund (1)	0	9,000	0	12,700	5,000	16,350
Other Funds	5,170	4,925	4,476	4,616	4,761	4,910
TOTAL GROSS REVENUES (2)	\$209,124	\$222,392	\$233,952	\$256,129	\$260,005	\$284,007
OPERATING EXPENSES (3)						
Personal Services	\$30,160	\$33,638	\$35,352	\$36,940	\$38,315	\$39,906
Materials and Services	14,547	17,606	18,851	19,427	20,115	21,040
Internal Services	33,283	35,796	36,329	36,767	37,543	39,290
Capitalized Overhead	(8,460)	(7,500)	(7,102)	(7,311)	(7,525)	(7,746)
Cash Transfers Out -						
General Fund Overhead	2,688	3,327	3,429	3,533	3,641	3,752
Rate Stabilization Fund	11,000	4,700	11,213	3,282	3,433	0
Other	2,563	2,957	3,385	3,539	3,701	3,867
TOTAL OPERATING EXPENSES	\$85,781	\$90,524	\$101,457	\$96,178	\$99,223	\$100,109
NET REVENUES	\$123,343	\$131,869	\$132,495	\$159,950	\$160,782	\$183,899
DEBT SERVICE						
First Lien Bonds (4)	\$61,932	\$76,631	\$77,315	\$98,788	\$98,783	\$122,616
Second Lien Bonds (5)	15,451	24,776	24,598	24,257	24,929	16,919
TOTAL DEBT SERVICE	\$77,382	\$101,407	\$101,912	\$123,045	\$123,712	\$139,535
DEBT SERVICE COVERAGE						
First Lien Bonds	1.99x	1.72x	1.71x	1.62x	1.63x	1.50x
First Lien and Second Lien Bonds	1.59x	1.30x	1.30x	1.30x	1.30x	1.32x

Notes:

- (1) The Rate Stabilization Fund was created in FY 1987-88, under the authority of the First Lien Bond Ordinance.
- (2) As defined in the First Lien Bond Ordinance.
- (3) As defined in the First Lien Bond Ordinance. Excludes depreciation.
- (4) Includes debt service on outstanding First Lien Bonds, including the 2006 Series A Bonds, and an additional \$277,270,000 and \$196,020,000 issued in FY 2007-08 and FY 2009-10, respectively, at assumed interest rates of 6.0 percent and 6.5 percent, respectively.
- (5) Includes debt service on outstanding Second Lien Bonds, including the 2006 Series B Bonds. Second Lien Bonds issued as Auction Rate Securities have an assumed all-in rate of 5.0% including broker/dealer fees.

Source: Bureau of Environmental Services.

CITY ECONOMIC CHARACTERISTICS

The City, with an estimated July 1, 2005, population of 555,650, comprises an area of approximately 135 square miles in northwestern Oregon. Located astride the Willamette River at its confluence with the Columbia River, the City is the center of commerce, industry, transportation, finance and services for an immediate metropolitan area with an estimated July 1, 2005, population of approximately 1.68 million. The City is the county seat of Multnomah County, and is the largest city in Oregon and the second largest city in the Pacific Northwest.

POPULATION

The population for the City has increased steadily over the past decade. The compounded annual rate of growth in population for the City from 1996 to 2005 was 1.11 percent compared to 0.91 percent for Multnomah County and 1.97 percent for the Portland MSA over the same period of time.

Table 18
CITY OF PORTLAND, OREGON
Population Estimate for the Last Ten Years

As of July 1	State of Oregon	City of Portland	Portland- Vancouver- Beaverton MSA (1)	Multnomah County	Washington County	Clackamas County
1996	3,245,100	503,000	1,746,800	638,780	376,500	313,200
1997	3,302,140	508,500	1,779,200	646,260	385,000	317,700
1998	3,350,080	509,610	1,815,300	651,520	397,600	323,600
1999	3,393,410	512,395	1,841,200	656,810	404,750	326,850
2000	3,436,750	531,600	1,935,960	662,400	449,250	340,000
2001	3,471,700	536,240	1,960,500	666,350	455,800	345,150
2002	3,504,700	538,180	1,989,550	670,250	463,050	350,850
2003	3,541,500	545,140	2,019,250	677,850	472,600	353,450
2004	3,582,600	550,560	2,050,650	685,950	480,200	356,250
2005	3,631,440	555,650	2,082,240	692,825	489,785	361,300
1996-2005 Compounded Annual Rate of Change	1.26%	1.11%	1.97%	0.91%	2.97%	1.60%
2001-2005 Compounded Annual Rate of Change	1.13%	0.89%	1.52%	0.98%	1.81%	1.15%

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

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

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

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

Portland-Vancouver-Beaverton Metropolitan Statistical Area

In 1994, the Portland-Vancouver Primary Metropolitan Statistical Area (“PMSA”) consisted of Multnomah, Columbia, Clackamas, Washington and Yamhill counties in Oregon; and Clark County in Washington. Based on the 2003 revised Metropolitan Statistical Area Standards, the Portland-Vancouver-Beaverton Metropolitan Statistical Area (“MSA”) consists of Multnomah, Clackamas, Washington, Yamhill, and Columbia counties in Oregon, and Clark and Skamania counties in Washington. Metropolitan statistical areas are based on commuting patterns within a metropolitan area, and are used primarily for labor, employment and unemployment statistics.

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

INCOME

In recent years, per capita personal income in the MSA has been consistently higher than in the State of Oregon (the “State”) and the nation.

The following table shows personal income and per capita income for the MSA compared to similar data for the State and nation. The compounded annual rate of change in total personal income for the MSA from 1994 to 2003 was 5.62 percent. The compounded annual rate of change in per capita income for the PMSA was 3.55 percent from 1994 to 2003, compared with 3.51 percent for the State, and 3.97 percent for the nation.

Table 19
CITY OF PORTLAND, OREGON
Total Personal Income and Per Capita Income
MSA, Oregon, and the United States
1995 to 2004

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

Notes:

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

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

LABOR FORCE AND UNEMPLOYMENT

The following table shows the annual average civilian labor force, employment level and unemployment level data that is available for the MSA for the period 1995 through 2004. The State of Oregon Employment Department reported an unemployment rate in the MSA of 5.1 percent in December 2005.

Table 20
CITY OF PORTLAND, OREGON
MSA Labor Force and Unemployment Rates (1) (3)

Year	Resident Civilian Labor Force	Unemployment		Total Employment (2)
		Number	Percent of Labor Force	
1995	967,953	36,393	3.8	931,560
1996	1,006,664	42,950	4.3	963,714
1997	1,043,762	43,017	4.1	1,000,745
1998	1,064,295	44,477	4.2	1,019,818
1999	1,077,532	46,665	4.3	1,030,867
2000	1,075,916	48,327	4.5	1,027,589
2001	1,085,826	65,891	6.1	1,019,935
2002	1,105,881	87,975	8.0	1,017,906
2003	1,103,787	93,411	8.5	1,010,376
2004	1,094,180	78,374	7.2	1,015,806

Notes:

- (1) The data in this table reflects the definition of the Portland-Vancouver-Beaverton MSA which consists of Multnomah, Washington, Clackamas, Columbia and Yamhill counties in Oregon and Clark and Skamania Counties in Washington.
- (2) Includes non-agricultural wage and salary, self-employed, unpaid family workers, domestics, agricultural workers and labor disputants.
- (3) The 2005 MSA Labor Force and Unemployment Rates will be available in August 2006.

Source: Oregon Employment Department.

Table 21
CITY OF PORTLAND, OREGON
Average Annual Unemployment

Year	Portland- Vancouver- Beaverton MSA (1)	State of Oregon	USA
1995	3.8%	4.9%	5.6%
1996	4.3	5.6	5.4
1997	4.1	5.6	4.9
1998	4.2	5.7	4.5
1999	4.3	5.5	4.2
2000	4.5	5.2	4.0
2001	6.1	6.4	4.7
2002	8.0	7.6	5.8
2003	8.5	8.1	6.0
2004	7.2	7.4	5.5
2005	N/A (2)	6.1	5.1

Notes:

- (1) This data reflects the definition of the Portland-Vancouver-Beaverton MSA which consists of Multnomah, Washington, Clackamas, Columbia and Yamhill counties in Oregon and Clark and Skamania Counties in Washington.
- (2) The 2005 MSA Unemployment Rates will be available in August 2006.

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

EMPLOYMENT BY INDUSTRY

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

The Portland metropolitan area's focus on manufacturing employment is largely based in the metals, instruments, machinery and electrical equipment sectors. The computer and electronic product manufacturing industry accounts for only 4.13 percent of the Portland metropolitan area's manufacturing employment.

Service industries account for 37.75 percent of the total non-agricultural employment in the metropolitan area, followed by trade transportation and utilities, which account for 20.33 percent.

Table 22
CITY OF PORTLAND, OREGON
MSA Non-Agricultural Wage and Salary Employment (1) (2)
(000)

Industry	2001	2002	2003	2004	2004 % of Total
Nonfarm Employment	961.3	939.3	929.7	946.1	100.00%
Manufacturing	135.9	123.8	118.1	119.9	12.67
Durable goods	102.3	92.8	87.9	89.9	9.50
Lumber & wood prod.	5.7	5.5	5.5	5.8	0.61
Metal manufacturing	19.4	18.3	17.1	17.6	1.86
Machinery manufacturing	9.9	8.8	8.4	8.5	0.90
Computer & electric manufacturing	42.7	37.7	34.7	35.4	3.74
Transportation equip. manufacturing	8.6	7.7	7.6	8.0	0.85
Other Durable goods	16.0	14.8	14.6	14.6	1.54
Nondurable goods	33.6	31.0	30.2	30.0	3.17
Food products	8.8	8.7	8.7	8.6	0.91
Paper products	6.3	5.6	5.4	5.2	0.55
Other Nondurable goods	18.5	16.7	16.1	16.2	1.71
Nonmanufacturing	825.4	815.5	811.6	826.1	87.32
Construction & mining	55.7	53.3	51.8	55.1	5.82
Trade Transportation & Utilities	198.1	192.4	190.9	193.5	20.45
Information	25.9	23.8	22.5	22.5	2.38
Financial activities	65.0	65.6	66.4	65.6	6.93
Professional & business services	127.4	121.7	117.9	121.1	12.80
Education & health services	106.5	111.0	113.6	115.3	12.19
Leisure and hospitality	85.5	84.8	85.6	87.5	9.25
Other Services	34.2	33.9	34.0	34.6	3.66
Government	127.1	129.0	128.9	130.9	13.84

Notes:

- (1) Totals may not sum due to rounding.
- (2) This data reflects the definition of the Portland-Vancouver-Beaverton MSA which consists of Multnomah, Washington, Clackamas, Columbia and Yamhill counties in Oregon and Clark and Skamania Counties in Washington.

Source: State of Oregon, Employment Department.

Table 23
CITY OF PORTLAND, OREGON
Major Employers in the Portland/Vancouver Metropolitan Area

Employer	Product or Service	2003-04 Estimated Employment (1)
Manufacturing Employers		
Intel Corporation	Semiconductor integrated circuits	14,890
NIKE Inc.	Sports shoes and apparel	5,742
Freightliner LLC	Heavy duty trucks	2,878
Precision Castparts Corporation	Steel castings	2,110
Tektronix Inc.	Electronic instruments	2,000
Hewlett-Packard Co.	Computer printers	1,900
The Boeing Co.	Aircraft frame structures	1,485
Oregonian Publishing Co.	Newspaper & commercial printing	1,320
Wacker Siltronic Corporation	Silicon semiconductor materials	1,300
Xerox Office Printing Business	Laser printers	1,200
Non-Manufacturing Employers		
Providence Health System	Health care & health insurance	13,496
Fred Meyer Stores	Grocery & retail variety chain	10,500
Kaiser Foundation Health Plan of the NW	Healthcare	8,000
Legacy Health System	Nonprofit health care	7,972
Safeway Inc.	Grocery chain	6,000
Albertsons Food Centers	Retail grocery chain	5,600
U.S. Bank	Bank & holding company	4,138
Wells Fargo	Bank	3,813
Southwest Washington Medical Center.	Health care	3,009
McDonald's Corporation	Fast food franchise	3,000
Public Employers		
U.S. Government	Government	15,220 (2)
State of Oregon	Government	17,004 (2) (3)
Oregon Health & Science University	Health care & education	11,500
City of Portland	Government	8,104 (3)
Portland School District	Education	6,500 (4)
Multnomah County	Government	4,659
Portland State University	Education	3,000 (4)
Beaverton School District	Education	3,512
State of Washington (Clark and Skamania Counties)	Government & higher education	3,193 (3)
Portland Community College	Education	2,600 (4)

Notes:

- (1) 2004-2005 information will be available in September 2006.
- (2) First quarter 2005 employment.
- (3) Totals may include part-time, seasonal and temporary employees. City of Portland employment for FY 2004-05.
- (4) Totals may include full-time and part-time, casual and student employees.

Source: Portland Business Alliance, Regional Financial Advisors and Oregon Employment Department.

DEVELOPMENT ACTIVITY

The Portland metropolitan area is home to more than 51,000 businesses, according to the 2003/04 Largest Employers of the Portland-Vancouver Metropolitan Area published by the Portland Business Alliance. Of those, about 2,400 are classified as headquarter firms.

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

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

Fourth quarter 2005 market data, provided by Cushman & Wakefield, show an overall office vacancy rate of 15.7 percent (Non-Central Business District) and 12.6 percent for the overall office vacancy rate of the Central Business District ("CBD"). An overall industrial vacancy rate of 7.4 percent was reported for the Portland area.

In October 2002, the Mayor's Business Roundtable and "Blue Ribbon Committee," working with the Portland Development Commission ("PDC"), recommended strategies and actions that have become the basis of a five-year economic development plan to be managed by the PDC. The five-year economic development plan provides guidelines to improve future development in the Portland area.

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

Development within Downtown Portland

The PDC approved the Montgomery Block Development Strategy in August 2003. As part of this development project, PDC commissioners approved a plan to purchase the Jasmine Tree restaurant site, located at 401 SW Harrison Street in March 2004. The property is a part of the four-block area targeted for redevelopment by the PDC. In February 2005 the PDC updated the plan, and construction of this project is anticipated in 2007.

The PDC expects to start construction in early 2006 of the Oak Tower on Oak Street along SW 3rd Ave. Oak Tower will be a \$42 million, 26-story, condominium building.

Construction has started of the Eliot tower at 10th and Jefferson. The 18-story tower, which consists of 223 condominiums, is slated to open in spring 2006.

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

May Department Stores Co. (now Federated Department Stores), Sage Hospitality Resources, and the PDC are working together on a \$106 million project that will redevelop the Meier & Frank store building in downtown Portland. Meier & Frank has consolidated its store to the first five floors. Sage plans to convert floors 6 through 16 of the building to a 334-room Marriott Renaissance hotel. There are also plans for a face-lift to restore the outside of the building. The plans call for completion in February 2007.

Nordstrom Inc. relocated and expanded its 19,000 square-foot Portland Nordstrom Rack to the ODS Tower along Morrison Street. The new 34,000 square feet store opened in February 2005 and employs 62 people.

The Esquire Hotel, which houses the Brasserie Montmartre restaurant, is undergoing a \$3 million renovation. The PDC is financing \$800,000 of the project's cost. Once completed, in mid-2006, the building's upper floors will feature 13 lofts ranging from 850 square feet to 1,500 square feet. Builders will make room for a banquet hall, and will double the current restaurant's size.

Clyde Hotel TIC and the Ace Team purchased the 1912-built Clyde Hotel in May 2005. The Ace Team owns and operates the hotel. The Ace Team turned the hotel's 93 rooms into approximately 50 suites and restored many of the interior features to their original 1912 state. The 36,536 square-foot hotel includes about 7,500 square feet of retail space.

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

South Waterfront/North Macadam District

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

The South Waterfront Central District Development Agreement, which anticipates public and private investment of \$1.9 billion, represents a partnership between the City, Oregon Health & Science University (“OHSU”), North Macadam Investors, LLC, and other private developers. The 31-acre project will be undertaken in three phases; Phase I, which broke ground in October 2003, is to be completed by 2008. Phase I development includes approximately 1,000 units of student, affordable and market rate condominiums and apartments; a 150-200 room hotel and conference facility; a 407,678 square-foot OHSU research/clinical building with parking. Various public infrastructure improvements including a new aerial tram connecting OHSU’s Marquam Hill campus to the South Waterfront, an extension of the Portland Streetcar, and new streets, parks, and greenway improvements are also underway.

Gerding/Edlen Development Co. and Williams and Dame Development are constructing the Meriwether condominiums, an \$81 million, twin-towered residential project set to open in mid-2006. The 246-unit project will be the first residential project in the waterfront neighborhood and will be neighbors with OHSU’s Wellness Center. Kiewit Pacific Structures Inc began construction in March 2005 on the tram.

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

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

The Portland Streetcar Inc. opened a 0.6-mile extension from PSU to RiverPlace in early March 2005. Construction was completed in the fall of 2005 on the Gibbs Extension. Service will begin in July 2006. This 0.6 mile extension connects at SW River Parkway and SW Moody, follows SW Moody south to SW Sheridan and from SW Sheridan to SW Gibbs, utilizing the former Willamette Shore trolley rail right-of-way. The cost of this extension is \$15.8 million, which includes the purchase of three additional streetcars. When the Gibbs extension is completed, the Portland Streetcar system will provide service from Northwest Portland and Legacy Good Samaritan Hospital through the Pearl District and west end of downtown to PSU continuing to RiverPlace and SW Gibbs and the Portland Tram.

The River District, Pearl District, and Old Town

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

In the Pearl District (located within the River District urban renewal area), Gerding/Edlen Development purchased the former Blitz Weinhard Brewery, a five-block complex, known as the “Brewery Blocks,” adjoining Burnside Street for \$20 million. The firm is redeveloping the property into a mixed-use retail, commercial and housing complex. The brewery property is near a building that was redeveloped for Wieden & Kennedy (a national advertising firm) in the Pearl District as its international headquarters. Gerding/Edlen Development headed up the \$20 million renovation of the Historic Cold Storage Building for Wieden & Kennedy. Whole Foods opened its first natural and organic supermarket in Oregon in the Brewery Blocks in March 2002. Tenants that moved into the Brewery Blocks in 2003 include Tyco Telecom, Sur la Table kitchenware retailer, Baja Fresh Mexican Grill, and Peet’s Coffee. The south half of Block 3, The Henry, is a 123-unit condominium project which was completed in June 2004. Block 5, a 16-story mixed-use apartment and town home tower with ground level retail tenants, including North Face and William-Sonoma, was completed in April 2005.

Bill Naito Corp. is planning to build condominium towers. The first two 10-story towers would adjoin Albers Mill and have been called the Waterfront Pearl. Following negotiations with Naito family property owners and PDC approval, construction could start as early as summer 2006.

Portland Center Stage is converting the Armory building in anticipation of a move from downtown Portland to the Pearl District. The \$28 million theater project is expected to be completed in late 2006. The new performance hall will be the first ever historic rehabilitation to receive a LEED Platinum Rating (Leadership in Energy and Environmental Design).

Walsh Construction Co. completed construction in fall of 2005 on a \$32 million project in the Pearl District. The 210-unit project at 1230 N.W. 12th Avenue, the Sitka, includes basement parking and ground-floor retail space.

In October 2002, the 301-unit McCormick Pier apartments were sold for \$30.4 million to Emerging Markets of North America, a Phoenix, Arizona-based firm. Renovations costing approximately \$20 million have been underway since then, including the addition of a marina, hot tubs, fitness center with indoor basketball court, outdoor fire-pits and barbecue entertainment areas. Construction was completed in February 2006.

The Yards at Union Station is a four-phase project eventually bringing more than 700 new units of housing. The first three phases, which added approximately 658 units of market rate and affordable housing, are complete. The final phase of the project began in summer 2005.

In July 2003, Gerding/Edlen Development began construction of a project located between Northwest 12th and 13th Avenues, just north of Couch Street and Whole Foods Market. The \$60 million building includes approximately 250 apartment units, and was completed in spring of 2005.

Prendergast & Associates began construction in July 2003 of the Burlington Tower, a \$35 million, 10-story concrete building with 163 apartment units and an equal number of parking spaces below it. The Burlington Tower, located south of Lovejoy between Northwest Ninth and 10th Avenues, was completed in May 2005.

In February 2004, outdoor equipment retailer REI opened a 35,000 square-foot store on the ground floor of the Edge, a \$35 million, 11-story building, with 125 lofts, located between Northwest Johnson and Kearney Streets and 14th and 15th Avenues in the Pearl District.

In the Old Town neighborhood located in the Downtown Waterfront urban renewal area adjacent to the River District, Central City Concern (“CCC”) partnered with developer Downtown Community Housing, Inc. and the PDC to build a 180-unit structure, called the 8 NW 8th Building, on the northeast corner of West Burnside and 8th Avenue. Construction was completed in October 2004. There is commercial space on the first and second floors. The housing lobby on the first floor opens off of 8th Avenue at the North Park Blocks and the office to serve the building’s residents is on the second floor. Floors three through eight have 120 transitional, single room occupancy units and community spaces.

North Portland

In August 2000, the Interstate Corridor urban renewal area was created to provide local funding for the proposed light rail line along Interstate Avenue, and to serve broader revitalization efforts in the area. The Interstate light rail is a \$350 million project which expanded light rail service 5.8 miles into North Portland neighborhoods. Also known as the “Yellow Line,” Interstate MAX service began in May 2004. (See “TRANSPORTATION AND DISTRIBUTION” below.)

The Killingsworth Station project will be the first major PDC-sponsored development at an Interstate MAX light rail station. The project includes 56 affordable one- and two-bedroom rental units, 35 affordable loft-style condominiums, 6,400 sq. ft. of ground floor commercial space, seven three-bedroom townhomes, approximately 12,800 sq. ft. of ground floor retail/office space along Killingsworth and Interstate Avenue, and structured parking. Construction is scheduled to begin in spring 2006.

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

The Housing Authority of Portland was awarded a \$35 million HOPE IV grant that anchors a \$145 million investment to redevelop the aging Columbia Villa public housing in Northeast Portland into “New Columbia.” The New Columbia project is the largest single redevelopment project in Portland, converting 82 acres of formerly low-density public housing into an 850-unit mixed income community. The project includes the replacement of 370 public housing units as well as the development of 60 elderly affordable housing units, 190 new affordable rental housing units and 230 new homeownership units. The City and the PDC will also provide funding for the New Columbia project. Construction started in December 2003, and the first phase was finished in May 2005.

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

In late 2005 and early 2006 Freighliner LLC laid off 130 workers in its Swan Island plant.

Lowe’s opened a home improvement superstore near Delta Park in fall 2005.

The Columbia Knoll project, which replaced the old Shriners Hospital for Children at Northeast 82nd Avenue and Sandy Boulevard, opened in summer 2005. The \$45 million project’s 326 units include family rental units, independent senior apartments and “congregate” senior housing with services. The senior-citizen building, which sits atop a hill in about the same location as the hospital, was completed in late 2005.

Westside Development

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

Dove Lewis broke ground on a new \$6.6 million animal hospital in August 2005. When the new hospital on NW Pettygrove Street opens in the fall of 2006, it will have 22,000 square feet of space, eight exam rooms, 96 beds and two surgery suites.

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

The Vaux, a high-end apartment building, is scheduled to be complete in the summer of 2006. The \$42 million, 26-story, 242,000-square-foot, Vaux is located in Portland’s Nob Hill District and will offer 145 units.

In October 2005, Mia Gelato opened a 1,200-square-foot store at 838 NW 23rd Avenue. Everett Street Bistro opened on NW Everett Street in November 2005. Williams-Sonoma Inc. opened a 16,000-square-foot store on NW 23rd Ave in February 2006.

In October and November 2005, Starbucks closed its Torrefazione Italia Café on NW 23rd Avenue and NW Everett Street. Norm Thompson Outfitters will be closing its store on NW Thurman Street in March 2006.

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

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

Eastside Development

Providence Portland Medical Center is building a parking garage and a 450,000 square-foot, eleven-story medical facility that will consolidate cancer services. The parking garage will be phase one of the development. Located at the hospital's campus at 4805 NE Glisan Street, it will cost \$18 million and accommodate parking for 750 additional cars. The second phase of the project, the medical facility, will cost \$150 million and likely be completed in 2008. The facility will provide 124 additional beds and a comprehensive cancer center.

Construction of a 106,000-square-foot medical clinic began in spring 2005, with an estimated cost of \$31 million. The Oregon Clinic will house 207 employees and include a parking garage that Tri-Met will build. The garage will have three-levels, 635 spaces, and be adjacent to the clinic. Of those spaces, 480 will be available to park-and-ride transit customers, replacing the current surface spaces, and 155 will be reserved for clinic employees and patients. The new structures will be located along Northeast 99th Avenue north of Pacific Street. Completion of both projects is expected in mid-2006.

Banfield, the Pet Hospital, completed construction of its \$25 million headquarters project in December 2005. The 225,000-square-foot facility, built at 82nd Avenue and Tillamook Street, includes two stories stacked over a sub-grade parking garage.

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

The Huynh family, owners of the Portland Beauty School, are building a \$6 million Asian American Shopping Center on NE 82nd Avenue. The center will occupy two acres when it is finished in mid-2006.

The Wentworth group of car dealerships moved into a new \$4.3 million, 22,000-square-foot, building on Grand Avenue and Burnside in November 2005.

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

Sellwood Landing Assisted Living facility opened in June 2005. Sunwest Management owns and manages the \$5.5 million, four-story 72,000-square-foot facility.

Albina Head Start opened a new \$3.5 million, 14,000-square-foot, McCormack-Matthews Center in the Rosemont Commons development of Northeast Portland in September 2004.

The Columbia Corridor

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

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

Work on improvements for the floating dock of Terminal 6, which Honda uses to bring in 87,000 autos every year, is expected to be complete in 2007. The Port of Portland awarded \$2.52 million for construction on the floating dock.

In November 2004, Toyota Logistics Services Inc. moved into a new \$40 million auto import and processing facility at the Port.

In mid 2006, Oregon Steel plans to complete construction of the \$35 million Spiral Mill in Portland. The new plant could employ 100 people.

AGRICULTURE

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

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

TRANSPORTATION AND DISTRIBUTION

Location and topography have established Portland as a leading warehousing and distribution center for the Pacific Northwest. The City's location at the head of deep-water navigation on the Columbia River system gives it substantial geographic and, therefore, economic advantages for the shipment of freight. The Columbia River ship channel is maintained at a depth of 40 feet from the Portland Harbor to the Pacific Ocean 110 miles downstream. The City is a regular port of call for 16 regularly scheduled major steamship lines serving major world trade routes. Six Oregon and Washington port districts joined to fund a five-year, study of the feasibility of deepening the shipping channel of the Columbia River from 40 feet to 43 feet, in order to accommodate larger, more efficient vessels. The project cost is estimated at approximately \$134 million. Primary cargoes include containers, automobiles, grain, and mineral bulks.

The Columbia River Channel Deepening Project will provide local and national transportation and trade improvements. The total cost of the proposed project is \$150.5 million. The states of Oregon and Washington have appropriated \$27.7 million each in matching funds for the local cost share, and the remaining funding will come from federal appropriations. On June 25, 2005, a U.S. Army Corp of Engineers contractor began deepening the navigating channel in selected areas near the mouth of the Columbia River. Because significant areas of the Columbia River are naturally deeper than what the new channel requires, only specific areas will require dredging. Phase one and 27 miles of the dredging process were finished in December 2005.

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

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

The Port is a port district encompassing Multnomah, Clackamas and Washington counties. The Port owns and maintains four marine terminals, four airports, and seven business parks. In tonnage of total waterborne commerce, the Port is currently ranked as the third largest volume port on the West Coast. Leading exports include wheat, soda ash, potash and hay. The Port is the largest wheat export port in the United States. Leading imports include automobiles, petroleum products, steel and limestone. The Port is the largest volume auto handling port and mineral bulks port on the West Coast. Total maritime tonnage decreased in 2005 to 11.5 million short tons compared to 12.6 million in 2004.

In September 2004, New World Alliance suspended container vessel calls to Portland. "K" Line ended service to the Port in December 2004. In November 2004, Toyota Logistics Services Inc. moved into a new \$40 million auto import and processing facility at the Port.

PDX handles more than 13 million passengers annually. Portland is served by 20 passenger carriers providing about 600 flights daily. In May 2005, Jet Blue began flights from PDX to New York's JFK, and in June started offering flights from PDX to Seattle. Portland is also served by three publicly operated general aviation airports located in the suburban areas. Two major railroads—the Burlington Northern Santa Fe and Union Pacific—plus the Amtrak passenger train system, serve the City.

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

The Tri-County Metropolitan Transportation District of Oregon (“TriMet”), the regional public transit agency, provides rail and bus service through the 575 square miles in the area. In 2005, passengers boarded a TriMet bus or train approximately 98.5 million times.

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

In August 2004, TriMet filed an application with the Federal Transit Administration seeking a federal grant to fund a two-phased extension of the light rail line with an estimated cost of \$494 million. Phase one would provide service along I-205 between Clackamas Town Center and the existing Gateway station, service could begin as early as 2009. The second phase would extend the light rail line from Portland State University to Union Station in downtown Portland. Future plans would connect downtown Portland to Milwaukie.

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

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

TOURISM, RECREATION AND CULTURAL ATTRACTIONS

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

The National Basketball Association (“NBA”) Portland Trail Blazers play at the Rose Garden Arena complex (which includes the Memorial Coliseum), as do the major-junior Western Hockey League (“WHL”) Portland Winterhawks. PGE Park, which was renovated and reopened in 2001, is home to the Portland Beavers (Triple-A), the Portland Timbers (A-League soccer), and the Portland State Vikings (Division I college football and women’s soccer). A prime tourist attraction for the City, known as the City of Roses, is the three-week long Portland Rose Festival held each June, since 1907. More than two million participants enjoy the Festival annually, and the Festival generates more than \$80 million for the region’s economy and local businesses.

According to the Portland Oregon Visitor’s Association (“POVA”), 227,799 visitors attended 312 conventions in the City during fiscal year 2004-05 (the most recent data available). Lodging occupancy rates for downtown Portland averaged 76.0 percent through November 2005, a 6.9 percent increase over the same period last year.

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

HIGHER EDUCATION

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

PSU is the largest of seven campuses in the Oregon State System of Higher Education. PSU is located on a campus encompassing an area of over 28 blocks adjacent to the downtown business and commercial district of Portland. PSU offers over 100 undergraduate, masters, and doctoral degrees, as well as graduate certificates and continuing education programs. Fall 2005 enrollment was over 25,000 students. PSU is noted for the development of programs specifically designed to meet the needs of the urban center.

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

OHSU's Marquam Hill Campus sits on more than 100 acres overlooking downtown Portland and occupies 31 major buildings on the hill. OHSU includes the schools of dentistry, medicine, nursing, and science and engineering. OHSU also includes Doernbecher Children's Hospital and OHSU Hospital, as well as primary care and specialty clinics, research institutes and centers, interdisciplinary centers, and community service programs. Each year, OHSU serves approximately 175,700 medical and dental patients and educates more than 3,900 students and trainees in health information technology, sciences, environmental engineering, computation and management. Competitive funding awards have nearly quadrupled during the last decade; OHSU receives more than \$260 million annually. OHSU is the City's largest non-government public employer with 2003-04 employment of 11,500.

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

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

UTILITIES

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

PUBLIC FACILITIES

Water

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

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

Sewer and Wastewater

Approximately one-third of the 96,200 acres within the City Urban Services Boundary and approximately 60 percent of the City's population is served by combined sanitary and storm water sewers. During rainstorms, the collection system exceeds the capacity of the interceptor system that conveys sewage to the Columbia Boulevard treatment plant, resulting in overflows of untreated sewage directly into the Willamette River and the Columbia Slough. Under a 1991 agreement between the City and the Oregon Department of Environmental Quality, the City has undertaken the Combined Sewer Overflow ("CSO") program to remedy this situation. Costs are estimated at more than \$1.4 billion to be invested over 20 years. In July 2005 the tunnel for the West side big pipe project was completed. In February 2006, the CSO project design for the final phase of the East side of the CSO project was completed. Construction of major CSO projects will continue until 2011.

HOUSING

The year-to-date median selling price of a home in metropolitan Portland for December 2005 was \$237,500, up from \$204,500 in December 2004, according to the Realtors Metropolitan Area Multiple Listing Service ("RMLS"). Homes in the metropolitan area were on the market an average of 43 days in December 2005. According to RMLS, in December 2005, the Southeast Portland region was the most active, with 4,963 closed sales followed by Northeast Portland with 3,783 closed sales. According to the US Census Bureau, on July 1, 2004, there were 299,975 housing units in Multnomah County.

OTHER ECONOMIC FACTORS

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

Table 24
CITY OF PORTLAND, OREGON
Various Economic Indices
for Fiscal Years Ending June 30

Fiscal Year	Commercial Construction		Residential Construction		Total Construction		Bank Deposits (\$000)
	No. of Permits	Value	No. of Permits	Value	No. of Permits	Value	
1996	3,069	497,058,470	4,011	132,248,762	7,080	629,307,232	11,133,967
1997	3,378	690,910,816	4,343	157,497,045	7,721	848,407,861	14,281,503
1998	4,089	778,910,533	4,153	166,479,499	8,242	945,390,032	12,942,696
1999	3,746	712,690,707	4,128	164,598,675	7,874	877,289,382	14,529,741
2000	3,628	685,894,883	4,390	166,029,804	8,018	851,924,687	15,667,859
2001	3,524	693,494,820	5,304	227,161,633	8,828	920,656,453	12,978,750
2002	3,394	702,312,602	5,676	286,907,402	9,070	989,220,004	16,214,809
2003	3,738	647,952,470	6,008	314,138,287	9,746	962,090,757	18,455,222
2004	3,485	819,507,836	6,105	329,706,927	9,590	1,149,214,763	11,223,521
2005	4,022	872,050,904	6,216	341,898,757	10,238	1,213,949,661	11,283,590

Sources:

Building:

City of Portland Audited Financial Statements, Bureau of Development Services. Data is collected on a fiscal year basis and includes new construction and alterations. In July 1986 the City's Permit Center consolidated with the East County Permit Center operated by Multnomah County. Permit data shown is for the City of Portland *only*.

Bank Deposits:

Oregon Department of Consumer and Business Services.

THE INITIATIVE PROCESS

The Oregon Constitution, Article IV, Section 1, reserves to the people of the State the initiative power to amend the State constitution or to enact State legislation by placing measures on the statewide general election ballot for consideration by the voters. Oregon law therefore permits any registered Oregon voter to file a proposed initiative with the Oregon Secretary of State's office without payment of fees or other burdensome requirements. Consequently, a large number of initiative measures are submitted to the Oregon Secretary of State's office, and a much smaller number of petitions obtain sufficient signatures to be placed on the ballot. Currently over 100 proposed initiative measures have been submitted to the Oregon Secretary of State's Office for the November 2000 general election.

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

PROPOSED INITIATIVES WHICH QUALIFY TO BE PLACED ON THE BALLOT

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

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

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

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

Table 25
CITY OF PORTLAND, OREGON
Initiative Petitions that Qualified and Passed
1990-2004

<u>Year of General Election</u>	<u>Number of Initiatives that Qualified</u>	<u>Number of Initiatives that Passed</u>
1990	8	3
1992	7	0
1994	16	9
1996	16	4
1998	10	6
2000	18	4 (1)
2002	7	3
2004	6	2

Notes:

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

Source: Elections Division, Oregon Secretary of State.

MEASURE 37 WHICH APPEARED ON THE NOVEMBER 2004 BALLOT

Oregon voters approved citizen initiative petition Measure 37 on November 2, 2004. Measure 37 became effective on December 2, 2004.

Measure 37 adds several new statutory provisions to Oregon law. Measure 37 entitles certain landowners either (a) to compensation for the reduction in the fair market value of their property that results from certain land use regulations (the “Restrictions”) that are enacted or enforced against the property; or, (b) to have their land released from the Restrictions. The government body that enacted or enforced the Restrictions decides whether to pay the claim or waive the Restrictions.

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

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

The City has enacted Restrictions, and as of February 8, 2005, has received 24 claims. Of this number, two (one partial) have been approved by the Council, eight (one partial) have been denied, four have been withdrawn, and 11 are in various stages of the review process. To date, the City has paid no monetary compensation but has opted to release properties from the Restrictions. Of unresolved claims, the amount being demanded is approximately \$5.4 million.

The Marion County Circuit Court ruled that Measure 37 was unconstitutional in October of 2005. In February of 2006 the Oregon Supreme Court overturned the Marion County Circuit Court ruling and upheld Measure 37. Many questions exist about the meaning of Measure 37 and the effect of its provisions. The Oregon Legislature has not adopted legislation resolving these questions, and no significant judicial precedents are available that construe its meaning. Therefore City cannot predict how it will be affected.

FUTURE INITIATIVE MEASURES

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

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

TAX EXEMPTION

In the opinion of Preston Gates & Ellis LLP, Bond Counsel, assuming compliance with certain covenants of the City, interest on the 2006 Bonds is excluded from gross income for federal income tax purposes under existing law. Interest on the 2006 Bonds is not an item of tax preference under the Internal Revenue Code of 1986, as amended (the "Code"), for purposes of determining the alternative minimum tax imposed on individuals and corporations. Interest on a 2006 Bond held by a corporation (other than an S corporation, regulated investment company, real estate investment trust or real estate mortgage investment conduit) may be indirectly subject to alternative minimum tax because of its inclusion in the earnings and profits of the corporate holder.

The Code sets forth certain requirements which must be met subsequent to the issuance and delivery of the 2006 Bonds for interest on the 2006 Bonds to remain excluded from the gross income of for federal income tax purposes. The City has covenanted to comply with such requirements. Noncompliance with such requirements may cause the interest on the Bonds to be included in gross income of the owners of the 2006 Bonds for federal income tax purposes, retroactive to the date of issue of the 2006 Bonds. Bond Counsel's opinion assumes compliance with these covenants and Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the 2006 Bonds may affect the tax status of interest on the 2006 Bonds.

The initial public offering price for certain maturities of the 2006 Bonds may be less than the amount payable at maturity. This difference between the initial public offering price and the amount payable at maturity constitutes original issue discount. The appropriate portion of the original issue discount that is allocable to the original and each subsequent owner is treated as interest upon sale, exchange, redemption, or payment at maturity of such 2006 Bond and is excluded from gross income for federal income tax purposes under existing law to the same extent as the stated interest on the 2006 Bonds.

In the opinion of Bond Counsel, interest on the 2006 Bonds is exempt from Oregon personal income tax under existing law. Bond Counsel is also of the opinion that interest on the 2006 Bonds is exempt from personal income tax imposed by Multnomah County, Oregon, under existing law.

OTHER FEDERAL TAX MATTERS

Interest on a 2006 Bond owned by a foreign corporation may be subject to the branch profits tax imposed by the Code. Ownership of the 2006 Bonds may give rise to collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the 2006 Bonds. Bond Counsel expresses no opinion as to any such collateral federal income tax consequences. Purchasers of the 2006 Bonds should seek advice based on the purchaser's particular circumstances from an independent tax advisor.

The initial public offering price for certain maturities of the 2006 Bonds may be greater than the amount payable on the 2006 Bonds at maturity. Bond counsel expresses no opinion with respect to the treatment of this additional amount.

RATINGS

The 2006 Bonds have been rated "Aaa" by Moody's Investors Service ("Moody's") and "AAA" by Standard & Poor's Ratings Group ("Standard & Poor's") with the understanding that upon delivery of the 2006 Bonds, a financial guaranty insurance policy will be issued by the MBIA Insurance Corporation. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody's Investors Service, Inc., 99 Church Street, New York, New York, 10007; and Standard & Poor's, 25 Broadway, New York, New York, 10004. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations,

studies and assumptions of its own. There is no assurance that any such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agency concerned, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of any such ratings may have an adverse effect on the market price of the 2006 Bonds.

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the 2006 Bonds by the City are subject to the approving opinion of Preston Gates & Ellis LLP, Portland, Oregon, Bond Counsel. Bond Counsel has reviewed this Official Statement only to confirm that the portions of it describing the 2006 Bonds, the First Lien Bond Ordinance, the Master Second Lien Bond Declaration, and the authority to issue the 2006 Bonds, conform to the 2006 Bonds and the applicable laws under which they are issued. The statements made in this Official Statement under the captions "THE 2006 BONDS" (except information under the subheading "SOURCES AND USES OF PROCEEDS"), "SECURITY FOR THE 2006 SERIES A BONDS," "SECURITY FOR THE 2006 SERIES B BONDS," "TAX EXEMPTION," Appendix A entitled "SUMMARY OF PRINCIPAL PROVISIONS OF THE FIRST LIEN BOND ORDINANCE" and Appendix B entitled "PROVISIONS OF THE MASTER SECOND LIEN SEWER SYSTEM REVENUE BOND DECLARATION THAT APPLY TO ALL SECOND LIEN BONDS", have been reviewed and approved by Bond Counsel. All other representations of law and factual statements contained in this Official Statement, including but not limited to all financial and statistical information and representations contained herein, have not been reviewed or approved by Bond Counsel. For further information concerning the scope of Bond Counsel's review of this Official Statement, see "TAX EXEMPTION" herein.

LITIGATION

There is no litigation pending or threatened against the City which impairs the City's ability to make principal and interest payments on the 2006 Bonds when due. There is no litigation pending or threatened against the City which would materially and adversely affect the financial condition of the City.

CERTIFICATE WITH RESPECT TO OFFICIAL STATEMENT

At the time of the original delivery of the 2006 Bonds, the City will deliver a certificate to the Underwriters to the effect that the City has examined this Official Statement and the financial and other data concerning the City contained herein and that, to the best of the City's knowledge and belief, (i) this Official Statement, both as of its date and as of the date of delivery of the 2006 Bonds, does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein, in light of the circumstances under which the statements were made, and (ii) between the date of this Official Statement and the date of delivery of the 2006 Bonds, there has been no material change in the affairs (financial or otherwise), financial condition or results of operations of the City except as set forth in this Official Statement.

MISCELLANEOUS

All quotations from and summaries and explanations of provisions of law herein do not purport to be complete, and reference should be made to said laws for full and complete statements of their provisions. This Official Statement is not to be construed as a contract or agreement between the City and the successful bidder or owners of any of the 2006 Bonds. Any statements made in this Official Statement involving matters of opinion are intended merely as opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or its agencies, since the date hereof.

CONTINUING DISCLOSURE

Pursuant to SEC Rule 15c2-12, as amended (17 CFR Part 240, § 240.15c2-12) (the “Rule”), the City, as the “obligated person” within the meaning of the Rule, will execute and deliver Continuing Disclosure Certificates substantially in the form attached hereto as Appendix E for the benefit of the 2006 Bond holders.

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

CONCLUDING STATEMENT

This Official Statement has been deemed final by the City for purposes of Rule 15c2-12 of the Securities and Exchange Commission. The undersigned certifies that to the best of his knowledge and belief, (i) this Official Statement, both as of its date and as of the date of delivery of the 2006 Bonds, does not contain any untrue statement of a material fact or omit any statement of a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading and (ii) between the date of this Official Statement and the date of delivery of the 2006 Bonds there has been no material change in the affairs (financial or other), financial condition or results of operations of the City except as set forth in or contemplated by this Official Statement.

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

CITY OF PORTLAND, OREGON

By: /s/ ERIC H. JOHANSEN
Debt Manager
Office of Management and Finance



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



This appendix summarizes certain provisions of City Ordinance No. 160276, as it has been amended through the date of this official statement (the “First Lien Bond Ordinance”). This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full text of the ordinances comprising the First Lien Bond Ordinance and the Bond Declaration for the 2006 Bonds. Copies of those documents may be obtained by request to the City’s Debt Manager, and by paying copying and shipping charges.

The First Lien Bond Ordinance

Definitions.

The First Lien Bond Ordinance uses the following defined terms:

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

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

“Charter” means the charter of the City, as amended.

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

“Code” means the Internal Revenue Code of 1986, as amended.

“Council” means the council of the City.

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

“Debt Service Account” means the Debt Service Account in the Redemption Fund.

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

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

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

“Net Revenues” means the Gross Revenues less the Operating Expenses.

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

“Owner” or “Bondowner” means the registered owner of a Bond.

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

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

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

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

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

“Reserve Account” means the Reserve Account in the Redemption Fund.

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

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

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

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

Credits Against Mandatory Redemption.

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

Pledge and Use of Revenues.

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

1. To pay Operating Expenses which are then due (other than payments to the Rate Stabilization Fund) and any rebate of earnings on nonpurpose obligations in which the gross proceeds of Bonds are invested which is required to be paid under Section 148(f) of the Code;
2. To make required payments to the Redemption Fund;
3. To make any payment required under a Reserve Equivalent, including any amounts due under a financial guaranty or other agreement executed in connection therewith;
4. To make required payments to the Reserve Account;
5. To pay any other costs or expenses relating to the Sewer System, and to make payments to the Rate Stabilization Fund.

Creation of Funds and Accounts.

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

The Debt Service Account

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

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

The Reserve Account

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

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

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

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

The Rate Stabilization Fund.

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

Rate Covenant.

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

1. Net Revenues (without adjustment for payments to or withdrawals from the Rate Stabilization Fund) in each fiscal year are projected to be at least equal to the sum of all payments due under any Reserve Equivalent, plus all debt service due on outstanding Bonds in that fiscal year; and
2. Net Revenues (after adjustments for payments to and withdrawals from the Rate Stabilization Fund) in each fiscal year are projected to be at least equal to the sum of all payments due under any Reserve Equivalent, plus 1.20 times the debt service on all outstanding Bonds due in that fiscal year.

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

General Covenants.

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

1. That it will, to the extent the Net Revenues are sufficient, promptly cause the principal and interest on the Bonds to be paid as they become due.
2. That it will maintain complete books and records relating to the operation of the Sewer System, the Gross Revenues, the Operating Expenses, the Redemption Fund, the Debt Service Account, the Reserve Account and the Rate Stabilization Fund, in accordance with generally accepted accounting principles, and will cause such books and

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

3. That it will not issue Bonds or other obligations having a claim superior to the claim of the Bonds upon the Net Revenues, except as provided specifically permitted by the First Lien Bond Ordinance.
4. That it will cause the System to be operated at all times in a safe, sound, efficient and economic manner in compliance with all health, safety and environmental laws, regulatory body rules, regulatory body orders and court orders applicable to the City's operation and ownership of the System, and shall cause the System to be maintained, preserved, reconstructed, expanded and kept, with all appurtenances and every part and parcel thereof, in good repair, working order and condition, and shall from time to time cause to be made, without undue deferral, all necessary or proper repairs, replacements and renewals so that at all times the operation of the System shall be properly and advantageously conducted. The City shall not enter into any agreements to provide free service or services at a discount from published rate schedules except in case of emergency.
5. That it will maintain insurance, or a reasonable system of self insurance, appropriate to the risks associated with operation of its Sewer System.

Parity Obligations.

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

1. No Default has occurred and is continuing.
2. At the time of the issuance of the Parity Obligations there is no deficiency in the Debt Service Account or the Reserve Account.
3. The ordinance authorizing the issuance of the Parity Obligations requires that the balance in the Reserve Account at closing is made equal to the Required Reserve for all outstanding Bonds, including the proposed Parity Obligations.
4. The ordinance authorizing the issuance of the Parity Obligations contains a covenant requiring the City to operate the Sewer System so that:
 - A. Net Revenues (without adjustment for payments to or withdrawals from the Rate Stabilization Fund) in each fiscal year are projected to be at least equal to the sum of all payments due under any Reserve Equivalent, plus all debt service due on outstanding Bonds (including the proposed Parity Obligations) in that fiscal year; and
 - B. Net Revenues (after adjustments for payments to and withdrawals from the Rate Stabilization Fund) in each fiscal year are projected to be at least equal to the sum of all payments due under any Reserve Equivalent, plus 1.20 times the debt service due on all outstanding Bonds (including the proposed Parity Obligations) in that fiscal year.
5. There is filed with the City Auditor the certificate of a qualified engineering, auditing or other consulting firm experienced in the preparation or review of financial forecasts and reports of municipal utility operations, to the effect that both (a) the Net Revenues (without regard to payments to or withdrawals from the Rate Stabilization Fund) for any of the 12 consecutive months during the 18 months preceding the issuance of the Parity Obligations are not less than 1.00 times maximum annual debt service on all outstanding Bonds and the proposed Parity Obligations; and (b) the Net Revenues, as projected for each of the next ensuing three fiscal years (including any planned rate increases) are not less than 1.20 times the sum of: Actual Debt Service on all outstanding Bonds in each respective fiscal year; plus, Average Annual Debt Service on the proposed Parity Obligations. In calculating Net Revenues under clause (a) of this paragraph, Net Revenues may be adjusted for rate increases which have been adopted by the Council prior to the issuance of Parity Obligations. Such rate increases need not be in effect when the Parity Obligations are issued.

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

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

Subordinate Obligations.

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

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

Default.

The following events shall constitute Default:

1. Failure to pay Bond principal, interest or premium when due; or
2. Failure to perform any other obligation of the City imposed by the First Lien Bond Ordinance or the Bonds, but only if:
 - A. the failure continues for a period of more than ninety (90) days after demand has been made on the City to remedy the failure by the Owners of at least twenty percent of the Bonds outstanding; and
 - B. the City fails to take reasonable steps to remedy the failure within that ninety-day period; or
 - C. Imposition of a receivership upon, or liquidation of, the Sewer System; or,
 - D. Written admission by the City that the City is unable to pay its debts as they become due.

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

Sales, Leases and Encumbrances.

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

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

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

Amendment or Supplement of First Lien Bond Ordinance.

Amendments without Owner Consent

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

1. To add to the covenants and agreements of the City in the First Lien Bond Ordinance any other covenants and agreements thereafter to be observed by the City, or to surrender any right or power herein reserved to or conferred upon the City, provided the City obtains an opinion of nationally recognized bond counsel that such amendment will not cause interest on tax-exempt Bonds to be includable in gross income for federal income tax purposes;
2. To cure any ambiguity or formal defect contained in the First Lien Bond Ordinance, if that cure does not, in the judgment of the Council, adversely affect the interests of the Bondowners; and provided the City obtains an opinion of Nationally Recognized Bond Counsel that such amendment will not cause interest on tax-exempt Bonds to be includable in gross income for federal income tax purposes;
3. To issue Parity Obligations in accordance with the First Lien Bond Ordinance;
4. To issue Subordinate Obligations in accordance with the First Lien Bond Ordinance.

Amendments with Owner Consent

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

1. Extends the maturity of any Bond, reduces the rate of interest upon any Bond, extends the time of payment of interest on any Bond, reduces the amount of principal payable on any Bond, or reduces any premium payable on any Bond, without the consent of the affected Bondowner; or
2. Reduces the percentage of Owners required to approve an amendment to the First Lien Bond Ordinance.

Defeasance.

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

1. shall cause to be irrevocably deposited with the Registrar or any other agent appointed for such purpose, cash or Government Obligations, or both, in an amount sufficient to pay when due the principal of, premium (if any) and interest on all or any portion of any Bonds; and
2. shall irrevocably instruct such agent in writing to apply such cash or Government Obligations to the payment when due of the principal of, premium (if any) and interest on all or such designated portion of any Bonds; and
3. if some or all of the Bonds are to be redeemed prior to maturity, shall irrevocably instruct the Registrar in writing to call such Bonds designated for redemption on such date or dates and in such principal amounts as the City shall specify;

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



APPENDIX B
PROVISIONS OF THE MASTER SECOND LIEN SEWER SYSTEM
REVENUE BOND DECLARATION
THAT APPLY TO ALL SECOND LIEN BONDS



PROVISIONS OF THE MASTER SECOND LIEN SEWER SYSTEM REVENUE BOND DECLARATION THAT APPLY TO ALL SECOND LIEN BONDS

Section 1. Definitions.

Unless the context clearly requires otherwise, capitalized terms that are used in this Master Declaration and are defined in this Section 1 shall have the meanings defined for those terms in this Section 1, and capitalized terms that are used in this Master Declaration but are not defined in this Section 1 shall have the meanings defined for those terms in the First Lien Bond Ordinance.

“2003 Series A Bonds” means the City’s Second Lien Sewer System Revenue and Refunding Bonds, 2003 Series A.

“Adjusted Net Revenues” means the Net Revenues, adjusted for purposes of Section 5.1 as provided in Section 5.3.

“Annual Second Lien Bond Debt Service” means in any Fiscal Year the sum of: (1) the amounts of any transfers to the Second Lien Bond Reserve Account that are described in Section 3.3.C and 3.3.D; plus (2) the amount of principal and interest required to be paid in that Fiscal Year on all Outstanding Second Lien Bonds, calculated as follows:

- (a) Interest which is to be paid from Second Lien Bond Proceeds shall be subtracted;
- (b) City Payments to be made in the Fiscal Year under a Parity Exchange Agreement shall increase Annual Second Lien Bond Debt Service, and Reciprocal Payments to be received in the Fiscal Year under a Parity Exchange Agreement shall reduce Annual Second Lien Bond Debt Service;
- (c) Second Lien Bonds which are subject to scheduled, noncontingent redemption or tender shall be deemed to mature on the dates and in the amounts which are subject to mandatory redemption or tender, and only the amount scheduled to be outstanding on the final maturity date shall be treated as maturing on that date;
- (d) Second Lien Bonds which are subject to contingent redemption or tender shall be treated as maturing on their stated maturity dates;
- (e) Variable Rate Obligations bear interest from the date of computation until maturity at their Estimated Average Interest Rate; and,
- (f) Each Balloon Payment shall be assumed to be paid according to its Balloon Debt Service Requirement.

“Audit” means the audit required by ORS 297.425.

“Auditor” means a person authorized by the State Board of Accountancy to conduct municipal audits pursuant to ORS 297.670.

“Balloon Debt Service Requirement” means the Committed Debt Service Requirement for a Balloon Payment or, if the City has not entered into a firm commitment to sell Second Lien Bonds or other obligations to refund that Balloon Payment, the Estimated Debt Service Requirement for that Balloon Payment.

“Balloon Payment” means any principal payment for a Series of Second Lien Bonds which comprises more than twenty-five percent of the original principal amount of that Series, but only if that principal payment is designated as a Balloon Payment in the closing documents for the Series.

“Base Period” means any twelve consecutive months selected by the City or Qualified Consultant out of the most recent twenty-four months preceding the delivery of a Series of Parity Second Lien Obligations.

“BEO” means “book-entry-only” and refers to a system for clearance and settlement of securities transactions through electronic book-entry changes, which eliminates the need for physical movement of securities.

“BMA Index” means the BMA Municipal Swap Index disseminated by Municipal Market Data, a Thomson Financial Services Company, or its successor. However, if that index ceases to be available, “BMA Index” means an index reasonably selected by the City which is widely available to dealers in municipal securities, and which measures the interest rate of municipal securities that bear interest at short term or variable rates.

“Bond Buyer 20 Bond Index” means the 20-Bond GO Index published by The Bond Buyer. However, if that index ceases to be available, “Bond Buyer 20 Bond Index” means an index reasonably selected by the City which is widely available to dealers in municipal securities, and which measures the interest rate of high quality, long-term, fixed rate municipal securities.

“Bond Counsel” means a law firm having knowledge and expertise in the field of municipal law and whose opinions are generally accepted by purchasers of municipal bonds.

“Business Day” means any day except a Saturday, a Sunday, a legal holiday, a day on which the offices of banks in Oregon or New York are authorized or required by law or executive order to remain closed, or a day on which the New York Stock Exchange is closed.

“City Council” means the City Council of the City, or its successors.

“City Payment” means any scheduled payment required to be made by or on behalf of the City under a Exchange Agreement which is either fixed in amount or is determined according to a formula set forth in the Exchange Agreement.

“City” means the City of Portland, Multnomah, Washington and Clackamas Counties, Oregon, a municipal corporation of the State of Oregon.

“Code” means the Internal Revenue Code of 1986, as amended, including the rules and regulations promulgated thereunder.

“Combined Annual Debt Service” means the sum of (1) the amount of any transfers to the First Lien Bond Reserve that are required by Section G.3(ii) of the First Lien Bond Ordinance; plus (2) the amount of principal of and interest on First Lien Bonds that is required to be paid in that Fiscal Year on Outstanding First Lien Bonds, including any amounts of principal or interest required to be paid on the First Lien Bonds during such fiscal year pursuant to any mandatory redemption schedule, but reduced by the amount of any interest on First Lien Bonds that will be paid from the proceeds the First Lien Bonds; plus, (3) the Annual Second Lien Bond Debt Service.

“Committed Debt Service Requirement” means the schedule of principal and interest payments for a Series of Second Lien Bonds or other obligations which refund a Balloon Payment, as shown in the documents evidencing the City’s firm commitment to sell that Series. A “firm commitment to sell” means a bond purchase agreement or similar document which obligates the City to sell, and obligates a purchaser to purchase, the Series of refunding Second Lien Bonds or other obligations, subject only to the conditions which customarily are included in such documents.

“Construction Fund” means the Sewer Construction Fund in the Sewage Disposal Fund, which the City has created to hold proceeds of bonds and other revenues related to capital improvements.

“Credit Facility” means a letter of credit, a municipal bond insurance policy, a surety bond, standby bond purchase agreement or other credit enhancement device which is obtained by the City to secure Second Lien Bonds, and which is issued or provided by a Credit Provider whose long-term debt obligations or claims-paying ability (as appropriate) are rated one of the two highest rating categories by a Rating Agency which rated the Second Lien Bonds secured by the Credit Facility.

“Credit Provider” means a person or entity providing a Credit Facility.

“Debt Manager” means the Debt Manager of the City, the Chief Financial Officer of the Bureau of Financial Services, the Chief Administrative Officer of the Office of Management and Finance, or the person designated by the Chief Administrative Officer of the Office of Management and Finance to act as Debt Manager under this Master Declaration.

“Direct Obligations” means direct obligations of the United States, and any obligations the payment of which is fully and unconditionally guaranteed by the United States.

“DTC” means The Depository Trust Company or any other qualified securities depository designated by the City as its successor.

“Estimated Average Interest Rate” is the interest rate that Variable Rate Obligations are assumed to bear, and shall be calculated as provide in Section 4.5.

“Estimated Debt Service Requirement” means the schedule of principal and interest payments for a hypothetical Series of Second Lien Bonds that refunds a Balloon Payment that is prepared by the Debt Manager and that meets the requirements of Section 4.6.

“Event of Default” means any event specified in 9.2 of this Master Declaration.

“Exchange Agreement” means a swap, cap, floor, collar or similar transaction which includes a written contract between the City and a Reciprocal Payor under which the City is obligated to make one or more the City Payments in exchange for the Reciprocal Payor's obligation to pay one or more Reciprocal Payments, and which provides that:

- (a) the Reciprocal Payments are to be deposited directly into the Second Lien Bond Account; and
- (b) the City is not required to fulfill its obligations under the contract if: (i) the Reciprocal Payor fails to make any Reciprocal Payment; or (ii) the Reciprocal Payor fails to comply with its financial status covenants.

“First Lien Bond” refers to “first lien bond” and refers to an obligation that is defined as a “Bond” in the First Lien Bond Ordinance.

“First Lien Bond Debt Service Account” means the “Debt Service Account” in the “Redemption Fund” that is established in the First Lien Bond Ordinance to pay First Lien Bonds.

“First Lien Bond Ordinance” means City Ordinance 160276, as it may be amended from time to time in accordance with its terms and Section 8.4 of this Declaration. City Ordinance 160276 describes the terms under which the First Lien Bonds may be issued.

“First Lien Bond Reserve Account” means the “Reserve Account” in the “Redemption Fund” that is established in the First Lien Bond Ordinance to hold reserves for the First Lien Bonds.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or as otherwise defined by State Law.

“Fitch” means Fitch Investors Service, Inc., its successors and assigns.

“Gross Revenues” means all fees and charges and other revenues that are properly accrued under generally accepted accounting principles as revenues of the Sewer System, including revenues from product sales and interest earnings on Gross Revenues in the Sewage Disposal Fund and transfers to the Sewage Disposal Fund from the City’s LID Construction Fund. Gross Revenues also shall also include transfers out of the Rate Stabilization Fund. However, the term “Gross Revenues” shall not include:

- (i) The interest income or other earnings derived from the investment of the Rebate Fund or any escrow fund established for the defeasance or refunding of outstanding indebtedness of the City
- (ii) Installment loan contract payments received by the City for line and branch charges, connection fees, local improvement district assessments or system development charges that have been pledged as security for a borrowing through the City Auditor’s Office or another City bureau which is separate from the Bureau of Environmental Services;
- (iii) Any gifts, grants, donations or other moneys received by the City from any State or Federal Agency or other person if such moneys are restricted by law or the grantor to uses inconsistent with the payment of Second Lien Bonds;
- (iv) The proceeds of any borrowing except borrowings that are described in clause (b) of this definition in connection with line and branch charges, connection fees, local improvement district assessments or system development charges;
- (v) The proceeds of any liability or other insurance (excluding business interruption insurance or other insurance of like nature insuring against the loss of revenues);
- (vi) The proceeds of any casualty insurance which the City intends to utilize for repair or replacement of the Sewer System;
- (vii) The proceeds derived from the sales of assets pursuant to Section 8.10 of this Master Declaration;

(viii) Any ad valorem or other taxes imposed by the City (except charges or payments for Sewer System services which become “taxes” within the meaning of Article XI, Section 11b of the Oregon Constitution only because they are imposed on property or property owners);

(ix) Any income, fees, charges, receipts, profits or other moneys derived by the City from its ownership or operation of any Separate Utility System.

“Insurance Policy” means a municipal bond insurance policy issued by an Insurer at the request of the City guaranteeing the scheduled payment of principal of and interest on the Second Lien Bonds when due.

“Insurer” means any person or entity providing an Insurance Policy.

“Interest Payment Date” means any date on which Second Lien Bond interest is scheduled to be paid, and any date on which Second Lien Bonds are called for redemption.

“Master Declaration” means this Master Second Lien Sewer Revenue Bond Declaration, including any amendments made pursuant to Section 10.

“Maximum Annual Second Lien Bond Debt Service” means the greatest amount of Annual Second Lien Bond Debt Service that is due in any Fiscal Year, beginning with the Fiscal Year for which the calculation is made, and ending with the last Fiscal Year in which Outstanding Second Lien Bonds are scheduled to be paid.

“Maximum Combined Annual Debt Service” means the greatest amount of Combined Annual Debt Service that is due in any Fiscal Year, beginning with the Fiscal Year for which the calculation is made, and ending with the last Fiscal Year in which Outstanding Second Lien Bonds are scheduled to be paid.

“Moody's” means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns.

“Net Revenues” means the Gross Revenues less the Operating Expenses.

“Operating Expenses” means all costs which are properly treated as expenses of operating and maintaining the Sewer System under generally accepted accounting principles, lease payments described in Section 4.7, and transfers to the Rate Stabilization Fund that are permitted under Section 2.1.I. However, Operating Expenses do not include:

- (a) Any rebates or penalties paid from Gross Revenues under Section 148 of the Code;
- (b) Payments of judgments against the City and payments for the settlement of litigation;
- (c) Depreciation and amortization of property values or losses, and all amounts treated for accounting purposes as payments for capital expenditures;
- (d) Debt service payments, paying agent fees, broker-dealer fees and similar charges for the maintenance of borrowings;
- (e) The expenses of owning, operating or maintaining any Separate Utility System;
- (f) Franchise fees and similar charges imposed by the City on the Sewer System or its operations;
- (g) Expenditures made from any liability insurance proceeds;
- (h) Expenditures made from any casualty insurance proceeds used to pay for costs of repairing or replacing portions of the Sewer System;
- (i) Expenditures made from grant monies regardless of whether such grant funds are dedicated to a specific purpose or available for the general operation, maintenance and repair or replacement of the Sewer System; and
- (j) Expenditures allocable to any other funding source which does not constitute Gross Revenues of the Sewer System.

“ORS” means the Oregon Revised Statutes.

“Outstanding” refers to: (1) all First Lien Bonds except First Lien Bonds that have been defeased pursuant to Section R of the First Lien Bond Ordinance and First Lien Bonds that have matured and not been presented for payment (provided sufficient funds to pay those First Lien Bonds has been transferred to the paying agent for those First Lien Bonds); and, (2) all Second Lien Bonds except Second Lien Bonds that have been defeased pursuant to Section 11 of this Master Declaration, and Second Lien

Bonds which have matured and not been presented for payment (provided sufficient funds to pay those Second Lien Bonds have been transferred to the Paying Agent).

“Owner” or “Second Lien Bond Owner” means a registered owner of a Second Lien Bond.

“Parity Exchange Agreement” means a Exchange Agreement which qualifies as a Parity Second Lien Obligation in accordance with Section 5.5.

“Parity Second Lien Obligation” means any obligation payable from the Net Revenues which is issued in accordance with Section 5, and includes any Parity Exchange Agreement.

“Payment Date” means a Principal Payment Date or an Interest Payment Date.

“Permitted Investments” means any investments which the City is permitted to make under the laws of the State.

“Principal Payment Date” means any date on which any Second Lien Bonds are scheduled to be retired, whether by virtue of their maturity or by mandatory sinking fund redemption prior to maturity, and the redemption date of any Second Lien Bonds which have been called for redemption.

“Project” means any purpose for which Gross Revenues may be spent.

“Qualified Consultant” means an independent engineer, an independent auditor, an independent financial advisor, or similar independent professional consultant of recognized standing and having experience and expertise in the area for which such person or firm is retained by the City for purposes of performing activities specified in this Master Declaration or any Supplemental Declaration.

“Rate Stabilization Fund” means the Rate Stabilization Fund established in the First Lien Bond Ordinance.

“Rating Agency” means Fitch, Moody's, S&P, or any other nationally recognized financial rating Agency which has rated Outstanding Second Lien Bonds or a Credit Facility at the request of the City.

“Reciprocal Payment” means scheduled payment to be made to, or for the benefit of, the City under a Exchange Agreement by or on behalf of the Reciprocal Payor, which is either fixed in amount or is determined according to a formula set forth in the Exchange Agreement.

“Reciprocal Payor” means a party to a Exchange Agreement (other than the City) that is obligated to make one or more Reciprocal Payments thereunder, and which is rated in one of the top three rating categories by at least one Rating Agency for its obligations under the Exchange Agreement.

“Record Date” for the Second Lien Bonds means the fifteenth (15th) day of the month preceding the month in which each Interest Payment Date occurs, whether or not a Business Day.

“Registrar” means the registrar and paying agent for the Second Lien Bonds, which is U.S. Bank Trust National Association on the date of this Master Declaration.

“Reserve Credit Facility” means a Credit Facility issued for the purpose of funding, in lieu of cash, all or any portion of the Second Lien Bond Reserve Requirement, under which the Credit Provider agrees to unconditionally provide the City with funds to transfer to the Second Lien Bond Reserve Account if amounts are required to be withdrawn from that account for deposit in the Second Lien Bond Account.

“Reserve Credit Facility Provider” means a person or entity providing a Reserve Credit Facility.

“S&P” means Standard & Poor's Corporation, a corporation organized and existing under the laws of the State of New York, its successors and their assigns.

“Second Lien Bond” means the 2003 Series A Bonds and any Parity Second Lien Obligations.

“Second Lien Bond Account” means the Second Lien Bond Account described in Section 3.2 of this Master Declaration.

“Second Lien Bond Reserve Account” means the Second Lien Bond Reserve Account in the Sinking Fund described in Section 3.3 of this Master Declaration.

“Second Lien Bond Reserve Requirement” means the lesser of Maximum Annual Second Lien Bond Debt Service or the amount described in the next sentence. If, at the time of issuance of a Series of Parity Second Lien Obligations, the amounts required to be added to the Second Lien Bond Reserve Account to make the balance in the Second Lien Bond Reserve Account equal to the Maximum Annual Second Lien Bond Debt Service exceeds the Tax Maximum for that Series, then the Second Lien Bond Reserve Requirement shall mean the Second Lien Bond Reserve Requirement in effect on the date of issuance of the Series of Parity Second Lien Obligations (calculated as if the Series of Parity Second Lien Obligations were not Outstanding), plus the Tax Maximum for the Series of Parity Second Lien Obligations. However, the City may elect to fund the Second Lien Bond Reserve Requirement for any Series of Second Lien Bonds in equal annual installments over a period of five years, as provided in Section 3.3.K. If the City makes this election for a Series of Second Lien Bonds, the Second Lien Bond Reserve Requirement shall be reduced by any installments the City has elected to make, but which are not yet due to be deposited in the Second Lien Bond Reserve Account.

“Separate Utility System” means any utility property which is declared by the City Council to constitute a system which is distinct from the Sewer System in accordance with Section 7.

“Series,” refers to all Second Lien Bonds Parity Second Lien Obligations authorized by a single ordinance or declaration and delivered in exchange for payment on the same date, regardless of variations in maturity, interest rate or other provisions, unless the closing documents for the Series provide otherwise.

“Sewage Disposal Fund” means the collection of funds and accounts used by the City to hold the Gross Revenues and the proceeds of Second Lien Bonds.

“Sewer System” means all real and personal property now or hereafter owned, operated, used, or maintained by the City for sewage disposal or sewage purification within or without the corporate limits of the City, including but not limited to, all methods of storm drainage, intercepting sewers, diversion sewers, relieving or interconnection sewers, sewers to separate storm and sanitary sewage, pump or ejector stations and equipment, and plants for treatment, processing and disposal of sewage. However, the Sewer System does not include any Separate Utility System.

“Sinking Fund” means the Sewer System Debt Redemption Fund in the Sewage Disposal Fund, which the City has created to provide for the repayment of bonded debt and the interest on bonded debt.

“State” means the State of Oregon.

“Subordinate Obligations Account” means the Subordinate Obligations Account of the Sewage Disposal Fund which is described in Section 3.4.

“Subordinate Obligations” means obligations having a lien on the Net Revenues which is subordinate to the lien of the Second Lien Bonds. Restrictions on Subordinate Obligations are described in Section 6.

“Supplemental Declaration” means any declaration, resolution or other document which supplements or amends this Master Declaration, entered into by the City in compliance with Section 10.

“Tax Maximum” means, for any Series of Second Lien Bonds, the lesser of: the greatest amount of principal, interest and premium, if any, required to be paid in any Fiscal Year on such Series; 125% of average amount of principal, interest and premium, if any, required to be paid on such Series during all Fiscal Years in which such Series will be Outstanding, calculated as of the date of issuance of such Series; or, ten percent of the proceeds of such Series, as “proceeds” is defined for purposes of Section 148(d) of the Code.

“Valuation Date” means July 1 of each year (or the first Business Day thereafter, if July 1 is not a Business Day), and the Business Day following any transfer from the Second Lien Bond Reserve Account to the Second Lien Bond Account pursuant to Section 3.3.A.

“Variable Rate Obligations” means any Second Lien Bonds issued with a variable, adjustable, convertible, or other similar interest rate which changes prior to the final maturity date of the Second Lien Bonds, and any City Payments or Reciprocal Payments under a Parity Exchange Agreement for which the interest portion of the payment is based on a rate that changes during the term of the Exchange Agreement.

Section 2. Deposit, Pledge and Use of Gross Revenues.

2.1 All Gross Revenues shall be deposited to and maintained in the Sewage Disposal Fund, and shall be used only as described in this Section as long as any Second Lien Bonds remain Outstanding. The City shall apply Gross Revenues in the Sewage Disposal Fund on or before the following dates for the following purposes in the following order of priority:

- A. At any time to pay Operating Expenses which are then due;
- B. To make all transfers to the First Lien Bond Debt Service Account and the First Lien Bond Reserve Account on the dates those transfers are required by the First Lien Bond Ordinance;
- C. One Business Day prior to each Payment Date, to transfer Net Revenues to the Second Lien Bond Account an amount sufficient (with amounts available in the Second Lien Bond Account) to pay in full all Second Lien Bond principal, interest and premium, if any, which is due to be paid on that Payment Date;
- D. On each date specified in a schedule for installment funding of the Second Lien Bond Reserve Account pursuant to Section 3.3.K, to transfer Net Revenues in the amount specified in that schedule to the Second Lien Bond Reserve Account;
- E. On the first day of each month following a Valuation Date on which the balance in the Second Lien Bond Reserve Account is determined to be less than the Second Lien Bond Reserve Requirement, to transfer to the Second Lien Bond Reserve Account the amount required by Sections 3.3.C and 3.3.D;
- F. On the day on which any rebates or penalties for Second Lien Bonds are due to be paid to the United States pursuant to Section 148 of the Code, to pay the amounts due to the United States;
- G. On the dates specified in any proceedings authorizing Subordinate Obligations, the City shall transfer to the Subordinate Obligations Account the Net Revenues required by those proceedings;
- H. After all transfers and payments having a higher priority under this Section have been made, Net Revenues shall be applied to any franchise fees, utility license fees and similar charges imposed by the City on the Sewer System or its operations.
- I. On any date, the City may transfer Net Revenues to the Rate Stabilization Fund or spend Net Revenues for any other lawful purpose, but only if all deposits and payments having a higher priority under this Section have been made.

2.2 The City hereby pledges the Net Revenues to the payment of principal of, premium (if any) and interest on all Second Lien Bonds. In addition, the City hereby pledges the Net Revenues available for transfer to the Second Lien Bond Reserve Account to pay amounts due under any Reserve Credit Facility. Pursuant to ORS 288.594, these pledges of the Net Revenues hereby made by the City shall be valid and binding from the time of the adoption of this Master Declaration. The Net Revenues so pledged and hereafter received by the City shall immediately be subject to the lien of such pledge without any physical delivery or further act. The lien of these pledges shall be subordinate to the lien on the Gross Revenues that secures the First Lien Bonds, but shall otherwise be superior to all other claims and liens except liens and claims for the payment of Operating Expenses. The City covenants and agrees to take such action as is necessary from time to time to perfect or otherwise preserve the priority of the pledge.

Section 3. Second Lien Bond Funds and Accounts.

3.1 So long as Second Lien Bonds are Outstanding, the City shall maintain the Second Lien Bond Account, the Second Lien Bond Reserve Account and the Subordinate Obligations Account as discrete accounts in the Sewage Disposal Fund. Unless the City restructures the funds and accounts in the Sewage Disposal Fund, the Second Lien Bond Account, the Second Lien Bond Reserve Account and the Subordinate Obligations Account shall be maintained in the Sinking Fund.

3.2 **Second Lien Bond Account.** The Second Lien Bond Account shall be held by the City. Until all Second Lien Bonds are paid or defeased, amounts in the Second Lien Bond Account shall be used only to pay Second Lien Bonds. The City shall transfer sufficient amounts from the Second Lien Bond Account to the Registrar in time to permit the Registrar to pay all Second Lien Bond principal, interest and premium (if any) when due in accordance with the Second Lien Bonds. Amounts in the Second Lien Bond Account shall be invested only in Permitted Investments. Earnings on the Second Lien Bond Account shall be credited to the Second Lien Bond Account.

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

- A. If, on any Payment Date the amounts on deposit in the Second Lien Bond Account are insufficient to pay all Second Lien Bond principal of, premium (if any) and interest due on that Payment Date, the City shall transfer Net Revenues in the Sewage Disposal Fund (other than amounts in the Second Lien Bond Reserve Account) to the Second Lien Bond Account in an amount equal to the deficiency. If the City is unable to make the transfer described by the preceding sentence, then the City shall transfer an amount equal to the deficiency from the Second Lien Bond Reserve Account to the Second Lien Bond Account.
- B. Transfers to the Second Lien Bond Reserve Account shall be applied first, to reimburse the Providers of any Reserve Credit Facilities *pro rata* for amounts advanced under the Reserve Credit Facility; second, to replenish the balance in the Second Lien Bond Reserve Account with cash or Permitted Investments; and third to pay any other amounts owed under a Reserve Credit Facility (including any interest, fees and penalties associated with any draw under a Reserve Credit Facility).
- C. If a transfer is made from the Second Lien Bond Reserve Account to the Second Lien Bond Account pursuant to Section 3.3.A, the City shall value the amounts in the Second Lien Bond Reserve Account as of the date of the transfer. If the transfer has reduced the balance in the Second Lien Bond Reserve Account below the amount the City is required to maintain in the Second Lien Bond Reserve Account, then beginning on the first day of the month that follows the Payment Date for which the transfer is made, the City shall make consecutive monthly transfers to the Second Lien Bond Reserve Account until the earlier of the date on which the City has restored the amount of the reduction, or the Second Lien Bond Reserve Account contains a balance that is equal to the Second Lien Bond Reserve Requirement. Each transfer required by this Section 3.3.C shall be at least equal to one twelfth of the reduction. The following examples illustrate this requirement. Example 1: The Second Lien Bond Reserve Requirement on July 1 is \$100, the Second Lien Bond Reserve Account has a balance of \$105 because the City has not transferred earnings out of the Second Lien Bond Reserve Account, and the City transfers \$29 from the Second Lien Bond Reserve Account to the Second Lien Bond Account. The transfer causes the Second Lien Bond Reserve Account to have a balance that is \$24 less than the amount the City is then required to maintain in the Second Lien Bond Reserve Account (the reduction is calculated by subtracting the \$5 surplus from the \$29 transfer). The City must make monthly transfers of \$2 to the Second Lien Bond Reserve Account beginning on August 1st. Example 2. The City makes the transfer described in Example 1, and commences making \$2 monthly transfers to the Second Lien Bond Reserve Account. On the next January 1st the City has deposited \$12 into the Second Lien Bond Reserve Account, so the balance in the Second Lien Bond Reserve Account on January 1st is \$88, or \$12 less than the amount the City is required to maintain in the Second Lien Bond Reserve Account. On that January 1st, the City is required to make another transfer of \$12 to the Second Lien Bond Account. This transfer reduces the balance in the Second Lien Bond Reserve Account to \$76, and requires the City to make twelve monthly transfers of \$1 to the Second Lien Bond Reserve Account, beginning on February 1st. On February 1st, the City will be required to make one of the remaining six monthly transfers of \$2 that resulted from the July 1st transfer, and to start making twelve monthly transfers of \$1 because of the January 1st transfer. Assuming

no other transactions in the Second Lien Bond Reserve Account, the balance in the Second Lien Bond Reserve Account will again be equal to the Second Lien Bond Reserve Requirement on the following January 1st.

- D. If the value of the Second Lien Bond Reserve Account on a Valuation Date is less than the Second Lien Bond Reserve Requirement, and the deficiency is not due to a transfer from the Second Lien Bond Reserve Account to the Second Lien Bond Account pursuant to Section 3.3.A, then beginning on the first day of the month that follows the month in which the Valuation Date occurs, the City shall make consecutive monthly transfers to the Second Lien Bond Reserve Account until the Second Lien Bond Reserve Account until the City has restored the deficiency described in the first sentence of this Section 3.3.D or the balance in the Second Lien Bond Reserve Account is at least equal to the Second Lien Bond Reserve Requirement. Each transfer shall be at least equal to one fourth of the deficiency.
- E. If the value of the investments in the Reserve Account on a Valuation Date exceeds the Second Lien Bond Reserve Requirement, the City may transfer the excess to any account of the Sewage Disposal Fund.
- F. Moneys in the Second Lien Bond Reserve Account may be invested only in Permitted Investments that mature no later than the final maturity date of the Second Lien Bonds. Earnings on the Second Lien Bond Reserve Account shall be credited to the Second Lien Bond Reserve Account whenever the balance in that account is less than the Second Lien Bond Reserve Requirement. Otherwise earnings shall be credited to the Second Lien Bond Account.
- G. Whenever the City values the Second Lien Bond Reserve Account the City shall subtract from the value of the Permitted Investments and cash in the Second Lien Bond Reserve Account all amounts then owed under Reserve Credit Facilities, including any interest, fees and penalties associated with any draws under a Reserve Credit Facilities.
- H. Permitted Investments in the Second Lien Bond Reserve Account shall be valued on each Valuation Date in the following manner:
 - (i) Demand deposits, deposits in the Oregon Short Term Fund and investments which mature in two years or less after the Valuation Date shall be valued at their face amount, plus accrued interest;
 - (ii) Investments which mature more than two years after the Valuation Date and for which bid and asked prices are published on a regular basis in the Wall Street Journal (or, if not there, then in the New York Times) shall be valued at the average of their most recently published bid and asked prices;
 - (iii) Investments which mature more than two years after the Valuation Date and for which the bid and asked prices are not published on a regular basis in the Wall Street Journal or the New York Times shall be valued at the average bid price quoted by any two nationally recognized government securities dealers (selected by the City in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service;
 - (iv) Reserve Credit Facilities shall be valued at the amount which is available to be drawn or paid under them;
 - (a) Certificates of deposit and bankers acceptances which mature more than two years after the Valuation Date shall be valued at their face amount, plus accrued interest; and
 - (b) Any investment which is not specified above and which matures more than two years after the Valuation Date shall be valued at its fair market value as reasonably estimated by the City.
- I. Withdrawals from the Second Lien Bond Reserve Account shall be made in the following order of priority:
 - (i) **First**, from any cash on deposit in the Second Lien Bond Reserve Account;
 - (ii) **Second**, from the liquidation proceeds of any Permitted Investments on deposit in such Second Lien Bond Reserve Account; and

(iii) **Third**, from moneys drawn or paid pro-rata under any Reserve Credit Facilities.

J. All amounts on deposit in the Second Lien Bond Reserve Account may be applied to the final payment (whether at maturity, by prior Redemption or by means of a defeasance as provided in Section 11) of Outstanding Second Lien Bonds. Amounts so applied shall be credited against the amounts the City is required to transfer into the Second Lien Bond Account under Section 2.1.B.

K. Any Supplemental Declaration authorizing the issuance of a Series of Second Lien Bonds shall require deposits into the Second Lien Bond Reserve Account in amounts sufficient to make the balance in the Second Lien Bond Reserve Account at least equal to the Second Lien Bond Reserve Requirement. The deposit required by this Section 3.3.K may be made in not more than five annual installments, with the final installment due not later than the fifth anniversary of the issuance of the Series of Second Lien Bonds. If the City elects to fund the portion of the Second Lien Bond Reserve Requirement which is allocable to a Series of Second Lien Bonds in installments, the election and the schedule for such deposits shall be stated prominently in the proceedings authorizing the Series of Second Lien Bonds.

3.4 **Subordinate Obligations Account.** If the City issues Subordinate Obligations, the City shall create and maintain the Subordinate Obligations Account as long as the Subordinate Obligations are outstanding. The Subordinate Obligations Account may be divided into subaccounts, and the City may establish priorities for funding the subaccounts in the Subordinate Obligations Subaccount. Net Revenues shall be deposited into the Subordinate Obligations Account only as permitted by Section 2.1.G. Earnings on the Subordinate Obligations Account shall be credited as provided in the proceedings authorizing the Subordinate Obligations.

3.5 **Rate Stabilization Fund.** The Rate Stabilization Fund has been established by the First Lien Bond Ordinance. The City shall maintain the Rate Stabilization Fund as long as Second Lien Bonds are Outstanding. Net Revenues may be transferred to the Rate Stabilization Fund at the option of the City as permitted by Section 2.1.I. Money in the Rate Stabilization Fund may be withdrawn at any time and used for any purpose for which the Gross Revenues may be used. Deposits to the Rate Stabilization Fund increase Operating Expenses for the Fiscal Year in which the deposit is made. Withdrawals from the Rate Stabilization Fund increase Gross Revenues for the Fiscal Year in which the withdrawal is made. The City may adjust deposits to and withdrawals from the Rate Stabilization Fund for a Fiscal Year at any time prior to the date on which the audit for that Fiscal Year is finalized. Earnings on the Rate Stabilization Fund shall be credited to the Sewage Disposal Fund.

Section 4. Rate Covenant; Calculation of Estimated Average Interest Rate and Refunding Rate; Operating Leases.

4.1 The City covenants for the benefit of the Owners that it will establish and maintain rates and charges in connection with the operation of the Sewer System which are sufficient to permit the City to pay all Operating Expenses and all lawful charges against the Net Revenues, and to make all transfers required by this Master Declaration to the Second Lien Bond Account, the Second Lien Bond Reserve Account and the Subordinate Obligations Account, and to pay any franchise fees or similar charges imposed by the City on the Sewer System or its operations.

4.2 The City covenants for the benefit of the Owners of all Second Lien Bonds that it shall charge rates and fees in connection with the operation of the Sewer System which, when combined with other Gross Revenues, but without regard to transfers from and to the Rate Stabilization Fund, are adequate to generate Net Revenues each Fiscal Year at least equal to one hundred percent (100.00%) of Combined Annual Debt Service due in that Fiscal Year.

4.3 The City covenants for the benefit of the Owners of all Second Lien Bonds that it shall charge rates and fees in connection with the operation of the Sewer System which, when combined with other Gross Revenues, are adequate to generate Net Revenues each Fiscal Year at least equal to one hundred ten percent (110.00%) of Combined Annual Debt Service due in that Fiscal Year.

4.4 The City shall determine whether it complied with Sections 4.2 and 4.3 for each Fiscal Year not later than sixty (60) days after the beginning of the subsequent Fiscal Year, based on the financial information available to the City at that time, and compliance with Sections 4.2 and 4.3 shall be determined based on that financial information. A failure to comply with Sections 4.2 or 4.3 shall not constitute an Event of Default if, within 120 days after the beginning of the subsequent Fiscal Year, the City implements the recommendations of a Qualified Consultant that is engaged by the City to deliver written recommendations for a schedule of rates and charges or other actions which the Qualified Consultant reasonably projects will permit the City to comply

with Sections 4.2 or 4.3 for the remainder of the Fiscal Year in which the recommendations are delivered to the City (with calculations for the partial year made on an annualized basis).

- 4.5 The Estimated Average Interest Rate for Variable Rate Obligations shall be calculated as provided in this Section.
- A. For purposes of calculating Combined Annual Debt Service for the rate covenants in Sections 4.2 and 4.3, the Estimated Average Interest Rate means the average BMA Index, expressed as an annualized interest rate, plus fifty basis points (0.50%), for the 52 week period that ends on or immediately before April 1 of the Fiscal Year that precedes the Fiscal Year in which that Estimated Average Interest Rate is used. For example: The City will determine the Estimated Average Interest Rate as of April 1, 2004, and that Estimated Average Rate shall be used to set the rates that are collected in the Fiscal Year 2004-2005 (the Fiscal Year that begins July 1, 2004) for all Variable Rate Obligations that are Outstanding during that Fiscal Year. At the beginning of Fiscal Year 2005-2006, the City will determine whether it complied with the rate covenants in Fiscal Year 2004-2005. The City will be deemed to have complied with the rate covenants in Fiscal Year 2004-2005 if the City collected Net Revenues that meet or exceed the requirements of Sections 4.2 and 4.3, using the Estimated Average Interest Rate calculated as of April 1, 2004.
- B. For purposes of calculating Annual Second Lien Bond Debt Service and Combined Annual Debt Service for the tests for issuing Parity Second Lien Obligations in Section 5.1.D:
- (i) Unless Section 4.5.B(ii) applies, the Estimated Average Interest Rate for any Series of Variable Rate Obligations means the average of the weekly Bond Buyer 20 Bond Index for the 52 week period that ends on or immediately before the last day of the month that precedes the month in which the Parity Second Lien Obligations are sold, expressed as an annualized interest rate; or,
- (ii) For any Series of Variable Rate Bonds that have been outstanding for at least 52 weeks at the end of the period described in Section 4.5.B(i), if the actual, annualized rate on that Series during that 52 week period is greater than the average, annualized rate described in Section 4.5.B(i), the Estimated Average Interest Rate for that Series means the average of the actual rates on that Series during that 52 week period, expressed as an annualized interest rate.
- C. For purposes of determining the Second Lien Bond Reserve Requirement, the Estimated Average Interest Rate for a Series of Parity Second Lien Obligations shall be the average of the weekly Bond Buyer 20 Bond Index for the 52 week period that ends on or immediately before the last day of the month that precedes the month in which the Parity Second Lien Obligations are sold, expressed as an annualized interest rate. This calculation of Estimated Average Interest Rate shall be used for that Series of Parity Second Lien Obligations as long as that Series of Parity Second Lien Obligations is Outstanding.
- 4.6 The Estimated Debt Service Requirement for Balloon Indebtedness shall be calculated in accordance with this Section
- 4.6.
- A. For the Rate Covenants: For each Balloon Payment that is Outstanding on May 1 of any Fiscal Year, the Debt Manager shall prepare a schedule of principal and interest payments for a hypothetical Series of Second Lien Bonds that refunds that Balloon Payment in accordance with Section 4.6.D. The Debt Manager shall prepare that schedule as of that first day of May, and, except as provided below in Section 4.6.E, that schedule shall be used to determine compliance with the rate covenants in Sections 4.2 and 4.3 for the following Fiscal Year.
- B. For Parity Second Lien Obligations: Whenever a Balloon Payment will be Outstanding on the date a Series of Parity Second Lien Obligations is issued, the Debt Manager shall prepare a schedule of principal and interest payments for a hypothetical Series of Second Lien Bonds that refunds each Outstanding Balloon Payment in accordance with this Section 4.6.D. The Debt Manager shall prepare that schedule as of the date the Parity Second Lien Obligations are sold, and, except as provided below in Section 4.6.E, that schedule shall be used to determine compliance with the tests for Parity Second Lien Obligations in Section 5.
- C. For the Second Lien Bond Reserve Requirement: Whenever a Series of Second Lien Bonds that contains a Balloon Payment is issued, the Debt Manager shall prepare a schedule of principal and interest payments for a hypothetical

Series of Second Lien Bonds that refunds each Balloon Payment in that Series in accordance with this Section 4.6.C. The Debt Manager shall prepare that schedule as of the date the Series is sold, and that schedule shall be combined with the schedule for payment of any debt service on that Series that is not a Balloon Payment, and that combined schedule shall be used to determine the Second Lien Bond Reserve Requirement as long as that Series is Outstanding.

- D. Each hypothetical Series of refunding Second Lien Bonds shall be assumed to be paid in equal annual installments of principal and interest sufficient to amortize the principal amount of the Balloon Payment over the term selected by the Debt Manager; however, the Debt Manager shall not select a term that exceeds the lesser of 20 years from the date the Balloon Payment is originally scheduled to be paid or the City's estimate of the remaining weighted average useful life (expressed in years and rounded to the next highest integer) of the assets which are financed with the Balloon Payment. The annual installments shall be assumed to be due on the anniversaries of the date the Balloon Payment is originally scheduled to be paid, with the first installment due on the date the Balloon Payment is scheduled to be paid. The hypothetical Series of refunding Second Lien Bonds shall be assumed to bear interest at the Debt Manager's estimate of the average rate that a Series of Second Lien Bonds would bear if it is amortized as provided in this Section 4.6.D and is sold at the time the applicable schedule described in Section 4.6.A, Section 4.6.B or Section 4.6.C is prepared.
- E. For purposes of determining compliance with the rate covenants in Sections 4.2 and 4.3 for the Fiscal Year in which a Balloon Payment is actually due, and for purposes of determining compliance the tests for Parity Second Lien Obligations in Section 5 for any Parity Second Lien Obligations that are issued during the Fiscal Year in which a Balloon Payment is actually due, the full, unpaid amount of a Balloon Payment shall be assumed to be paid on the date that payment is actually due, unless the City has in effect an irrevocable commitment to pay the Balloon Payment when it comes due from a Credit Facility Provider that is rated at least "P1" by Moody's or "A1" by S&P.

4.7 The City may enter into operating leases and capital leases for assets relating to the Sewer System. Payments due under operating leases shall be treated as Operating Expenses. Payments due under capital leases shall be treated as Operating Expenses only if the capital leases have a term of ten years or less, and the total amount of lease payments under capital leases which are treated as Operating Expenses in a fiscal year does not exceed ten percent of the Operating Expenses for the prior fiscal year. For purposes of the preceding sentence, "ten percent of the Operating Expenses for the prior fiscal year" shall be calculated by excluding all capital lease payments for Operating Expenses.

Section 5. Parity Second Lien Obligations

- 5.1 The City may issue Parity Second Lien Obligations to provide funds for any purpose relating to the Sewer System, but only if:
- A. No Event of Default under this Master Declaration or any Supplemental Declaration has occurred and is continuing;
 - B. At the time of the issuance of the Parity Second Lien Obligations there is no deficiency in the Second Lien Bond Account, and the balance in the Second Lien Bond Reserve Account is at least equal to the Second Lien Bond Reserve Requirement;
 - C. The Supplemental Declaration authorizing the issuance of the Second Lien Bonds contains a covenant requiring the City to charge rates and fees in connection with the operation of the Sewer System which, when combined with other Gross Revenues, are adequate to satisfy the requirements of Section 4.2; and,
 - D. There shall have been filed with the City either:
 - (i) A certificate of the Debt Manager stating that the Net Revenues (adjusted as provided in Section 5.2) for the Base Period were not less than one hundred ten percent (110.00%) of Maximum Combined Annual Debt Service on all then Outstanding First Lien Bonds and Second Lien Bonds, calculated as of the date the Parity Second Lien Obligations are issued and with the proposed Parity Second Lien Obligations treated as Outstanding; or
 - (ii) A certificate or opinion of a Qualified Consultant:

- (a) stating the amount of the Adjusted Net Revenues computed as provided in Section 5.3 below for each of the four Fiscal Years after the last Fiscal Year for which interest on the Parity Second Lien Obligations is, or is expected to be, capitalized, or, if interest will not be capitalized, for each of the four Fiscal Years after the proposed Parity Second Lien Obligations are issued;
- (b) concluding that the respective amounts of Adjusted Net Revenues in each of the Fiscal Years described in Section 5.1.D(ii)(a) are at least equal to one hundred ten percent (110.00%) of the Combined Annual Debt Service for each of those respective Fiscal Years on all Outstanding First Lien Bonds and Second Lien Bonds, with the proposed Parity Second Lien Obligations treated as Outstanding;
- (c) stating the projected amount of the Adjusted Net Revenues for the fifth Fiscal Year after the last Fiscal Year for which interest on the Parity Second Lien Obligations is, or is expected to be, capitalized, or, if interest will not be capitalized, the fifth Fiscal Year after the Parity Second Lien Obligations are issued; and,
- (d) concluding that this amount described in Section 5.1.D(ii)(c) is at least equal to one hundred ten percent (110.00%) of the Maximum Combined Annual Debt Service, calculated for the period beginning with that fifth Fiscal Year on all then Outstanding First Lien Bonds and Second Lien Bonds, with the proposed Parity Second Lien Obligations treated as Outstanding.

5.2 Net Revenues may be adjusted for purposes of Section 5.1.D(i) by adding any Net Revenues the Debt Manager calculates the City would have had during the Base Period because of increases in Sewer System rates, fees and charges which have been adopted by the City on or before the date the Parity Second Lien Obligations are issued.

5.3 Adjusted Net Revenues for purposes of Section 5.1.D(ii) shall be computed by adjusting the Net Revenues for the Base Period in any of the following ways:

- A. If the Second Lien Bonds are being issued for the purpose of acquiring operating Sewer System utility properties having an earnings record, the Qualified Consultant may estimate the effect on the Net Revenues for the Base Period if the Sewer System utility properties had been part of the Sewer System during the Base Period. The estimate shall be based on the operating experience and records of the City and any available financial and records relating to the Sewer System utility properties which will be acquired;
- B. To reflect any changes in rates and charges which the Qualified Consultant determines are reasonable.
- C. To reflect any customers added to the Sewer System after the beginning of the Base Period and prior to the date of the Qualified Consultant's certificate; and
- D. If extensions of or additions to the Sewer System are in the process of construction on the date of the Qualified Consultant's certificate, or if the proceeds of the Second Lien Bonds being issued are to be used to acquire or construct extensions of or additions to the Sewer System, to reflect any additional Net Revenues not included in the preceding paragraphs that will be derived from such additions and extensions (after deducting the estimated increase in operating and maintenance expenses resulting from such additions and extensions).

5.4 The City may issue Parity Second Lien Obligations to refund Outstanding Second Lien Bonds or First Lien Bonds without complying with Section 5.1 if the refunded Second Lien Bonds or First Lien Bonds are defeased on the date of delivery of the refunding Parity Second Lien Obligations and if the Combined Annual Debt Service on the refunding Parity Second Lien Obligations does not exceed the Combined Annual Debt Service on the refunded Second Lien Bonds or First Lien Bonds (calculated as if the refunded First Lien Bonds were Second Lien Bonds) in any Fiscal Year by more than \$5,000.

5.5 An Exchange Agreement may be a Parity Exchange Agreement and a Parity Second Lien Obligation if the obligation to make City Payments under the Exchange Agreement qualifies as a Parity Second Lien Obligation under Section 5.1, after the Reciprocal Payments under the Exchange Agreement are applied to reduce Combined Annual Debt Service. Any Parity Exchange Agreement shall clearly state that it is a Parity Exchange Agreement and has qualified as a Parity Second Lien Obligation under Section 5.1 of this Master Declaration. In addition, the City may replace a Parity Exchange Agreement with

another Parity Exchange Agreement without qualifying the replacement Exchange Agreement under Section 6.1 if the replacement does not increase the Combined Annual Debt Service in any Fiscal Year by more than \$5,000.

5.6 All Parity Second Lien Obligations issued in accordance with this Section shall have a lien on the Net Revenues which is equal to the lien of all other Outstanding Second Lien Bonds.

Section 6. Subordinate Obligations.

The City may issue Subordinate Obligations only if:

6.1 The Subordinate Obligations are payable solely from amounts permitted to be deposited in the Subordinate Obligations Account pursuant to Section 2.1.G;

6.2 The Subordinate Obligations state clearly that they are secured by a lien on or pledge of the Net Revenues which is subordinate to the lien on, and pledge of, the Net Revenues for the Second Lien Bonds.

Section 7. Separate Utility System.

The City may declare property which the City owns and is part of the Sewer System (but has a value of less than five percent of the Sewer System at the time of the declaration), and property which the City has not yet acquired but would otherwise become part of the Sewer System, to be part of a Separate Utility System. The City may pay costs of acquiring, operating and maintaining Separate Utility Systems from Net Revenues, but only if there is no deficit in the First Lien Bond Debt Service Account, the First Lien Bond Reserve Account, the Second Lien Bond Account or the Second Lien Bond Reserve Account. The City may issue obligations which are secured by the revenues produced by the Separate Utility System, and may pledge the Separate Utility System revenues to pay those obligations. In addition, the City may issue Subordinate Obligations to pay for costs of a Separate Utility System, and may pledge the revenues of the Separate Utility System to pay the Subordinate Obligations.

Section 8. General Covenants.

The City hereby covenants and agrees with the Owners of all Outstanding Second Lien Bonds as follows:

8.1 The City shall promptly cause the principal, premium, if any, and interest on the Second Lien Bonds to be paid as they become due in accordance with the provisions of this Master Declaration and any Supplemental Declaration.

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

8.3 The City shall not issue obligations which have a lien on the Net Revenues that is superior to the lien of the Second Lien Bonds except for First Lien Bonds and obligations to pay Operating Expenses.

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

8.5 The City shall promptly deposit the Gross Revenues and other amounts described in this Master Declaration into the funds and accounts specified in this Master Declaration.

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

- 8.7 The City shall maintain the Sewer System in good repair, working order and condition.
- 8.8 The City shall not enter into any agreement to provide Sewer System products or services at a discount from published rate schedules, and that it will not provide free Sewer System products or services except in case of emergencies;
- 8.9 The City shall at all times maintain with responsible insurers all such insurance on the Sewer System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties.
- A. The net proceeds of insurance against accident to or destruction of the Sewer System shall be used to repair or rebuild the damaged or destroyed Sewer System, and to the extent not so applied, will be applied to the payment or redemption of the Second Lien Bonds;
- B. Insurance described in Section 8.9 shall be in the form of policies or contracts for insurance with insurers of good standing and shall be payable to the City, or in the form of self-insurance by the City. The City shall establish such fund or funds or reserves which it deems are necessary to provide for its share of any such self-insurance;
- 8.10 The City shall not, nor shall it permit others to, sell, mortgage, lease or otherwise dispose of or encumber all or any portion of the Sewer System except:
- A. The City may dispose of all or substantially all of the Sewer System, only if the City pays all Second Lien Bonds or defeases them pursuant to Section 11.
- B. Except as provided in Section 8.10.C, the City will not dispose of any part of the Sewer System in excess of 5% of the value of the Sewer System in service unless prior to such disposition either:
- (i) There has been filed with the City a certificate of a Qualified Consultant stating that such disposition will not impair the ability of the City to comply with the rate covenants contained in Section 4.1 of this Master Declaration; or
- (ii) Provision is made for the payment, redemption or other defeasance of a principal amount of Second Lien Bonds equal to the greater of the following amounts:
- (a) An amount which will be in the same proportion to the net principal amount of Second Lien Bonds then Outstanding (defined as the total principal amount of Second Lien Bonds then Outstanding less the amount of cash and investments in the Sinking Fund) that the Gross Revenues attributable to the part of the Sewer System sold or disposed of for the 12 preceding months bears to the total Gross Revenues for such period; or
- (b) An amount which will be in the same proportion to the net principal amount of Second Lien Bonds then Outstanding that the book value of the part of the Sewer System sold or disposed of bears to the book value of the Sewer System immediately prior to such sale or disposition.
- C. The City may dispose of any portion of the Sewer System that has become unserviceable, inadequate, obsolete, or unfit to be used or no longer necessary for use in the operation of the Sewer System.
- D. If the ownership of all or part of the Sewer System is transferred from the City through the operation of law, the City shall to the extent authorized by law, reconstruct or replace such transferred portion using any proceeds of the transfer unless the City Council reasonably determines that such reconstruction or replacement is not in the best interest of the City and the Second Lien Bond Owners, in which case any proceeds shall be used for the payment, redemption or defeasance of the Second Lien Bonds.

Section 9. Events of Default and Remedies.

9.1 Continuous Operation Essential. The City Council of the City hereby finds and determines that the continuous operation of the Sewer System and the collection, deposit and disbursement of the Net Revenues in the manner provided in this Master Declaration and in any Supplemental Declaration are essential to the payment and security of the Second Lien Bonds, and the failure or refusal of the City to perform the covenants and obligations contained in this Master Declaration or any such Supplemental Declaration will endanger the necessary continuous operation of the Sewer System and the application of the Net Revenues to the operation of the Sewer System and the payment of the Second Lien Bonds.

9.2 Events of Default. The following shall constitute "Events of Default":

- A. If the City shall fail to pay any Second Lien Bond principal or interest when due, either at maturity, upon exercise of a right of tender, by proceedings for redemption or otherwise;
- B. Except as provided in Section 4.4 and 9.2.F, if the City shall default in the observance and performance of any other of its covenants, conditions and agreements in this Master Declaration, if such default continues for thirty (30) days after the City receives a written notice, specifying the Event of Default and demanding the cure of such default, from a Credit Provider, a committee of Second Lien Bond Owners or from the Owners of not less than 20% in aggregate principal amount of the Second Lien Bonds Outstanding;
- C. If the City shall sell, transfer, assign or convey any properties constituting the Sewer System in violation of Section 9.10;
- D. If an order, judgment or decree shall be entered by any court of competent jurisdiction:
 - (i) Appointing a receiver, trustee or liquidator for the City or the whole or any part of the Sewer System;
 - (ii) Approving a petition filed against the City seeking the bankruptcy, arrangement or reorganization of the City under any applicable law of the United States or the State; or
 - (iii) Assuming custody or control of the City or of the whole or any part of the Sewer System under the provisions of any other law for the relief or aid of debtors and such order, judgment or decree shall not be vacated or set aside or stayed (or, in case custody or control is assumed by said order, such custody or control shall not be otherwise terminated) within sixty (60) days from the date of the entry of such order, judgment or decree; or
- E. If the City shall:
 - (i) Admit in writing its inability to pay its debts generally as they become due;
 - (ii) File a petition in bankruptcy or seeking a composition of indebtedness under any state or federal bankruptcy or insolvency law;
 - (iii) Consent to the appointment of a receiver of the whole or any part of the Sewer System; or
 - (iv) Consent to the assumption by any court of competent jurisdiction under the provisions of any other law for the relief or aid of debtors of custody or control of the City or of the whole or any part of the Sewer System.
- F. Exception. It shall not constitute an Event of Default under Section 9.2.B. if the default cannot practicably be remedied within thirty (30) days after the City receives notice of the default, so long as the City promptly commences reasonable action to remedy the default after the notice is received, and continues reasonable action to remedy the default until the default is remedied.
- G. Remedies. If an Event of Default occurs, any Second Lien Bond Owner may exercise any remedy available at law or in equity. However, the Second Lien Bonds shall not be subject to acceleration.

H. Books of City Open to Inspection.

- (i) The City covenants that if an Event of Default shall have happened and shall not have been remedied, the books of record and account of the City and all other records relating to the Sewer System shall at all reasonable times be subject to the inspection and use of the Second Lien Bond Owners Committee and any persons holding at least twenty percent (20%) of the principal amount of Outstanding Second Lien Bonds and their respective agents and attorneys.
- (ii) The City covenants that if the Event of Default shall happen and shall not have been remedied, the City will continue to account, as a trustee of an express trust, for all Net Revenues and other moneys, securities and funds pledged under this Master Declaration.

I. Waivers of Event of Default.

- (i) No delay or omission of any Second Lien Bond Owner to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such Event of Default or to be an acquiescence therein; and every power and remedy given by this Section 9 to the Second Lien Bond Owners may be exercised from time to time and as often as may be deemed expedient by the Second Lien Bond Owners.
- (ii) The owners of not less than fifty percent (50%) in principal amount of the affected Second Lien Bonds that are at the time Outstanding, or their attorneys-in-fact duly authorized, may, on behalf of the owners of all of affected Second Lien Bonds, waive any past default under this Master Declaration with respect to such Second Lien Bonds and its consequences, except a default in the payment of the principal of, premium, if any, or interest on any of the Second Lien Bonds. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

J. Remedies Granted in Master Declaration Not Exclusive.

No remedy by the terms of this Master Declaration conferred upon or reserved to the Second Lien Bond Owners is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Master Declaration or existing at law or in equity or by statute on or after the date of adoption of this Master Declaration.

Section 10. Amendment of Master Declaration.

10.1 This Master Declaration may be amended by Supplemental Declaration without the consent of any Second Lien Bond Owners for any one or more of the following purposes:

- A. To cure any ambiguity or formal defect or omission in this Master Declaration;
- B. To add to the covenants and agreements of the City in this Master Declaration, other covenants and agreements to be observed by the City which are not contrary to or inconsistent with this Master Declaration as theretofore in effect;
- C. To authorize issuance of Second Lien Bonds or Subordinate Obligations;
- D. To authorize Parity Exchange Agreements, and specify the rights and duties of the parties to a Parity Exchange Agreement;
- E. To modify, amend or supplement this Master Declaration or any Supplemental Declaration to qualify this Master Declaration under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect or to permit the qualification of any Second Lien Bonds for sale under the securities laws of any of the states of the United States of America;

- F. To confirm, as further assurance, any security interest or pledge created under this Master Declaration or any Supplemental Declaration;
- G. To make any change which, in the reasonable judgment of the City, does not materially and adversely affect the rights of the owners of any Outstanding Second Lien Bonds;
- H. So long as a Credit Facility (other than a Reserve Credit Facility) is in full force and effect with respect to the Second Lien Bonds affected by such Supplemental Declaration, to make any other change which is consented to in writing by the issuer of such Credit Facility other than any change which:
 - (i) Would result in a downgrading or withdrawal of the rating then assigned to the affected Second Lien Bonds by the Rating Agencies;
 - (ii) Changes the maturity (except as permitted herein), the Interest Payment Dates, interest rates, redemption and purchase provisions, and provisions regarding notices of redemption and purchase applicable to the affected Second Lien Bonds or diminishes the security afforded by such Credit Facility;
 - (iii) Materially and adversely affects the rights and security afforded to the Owners of any Outstanding Second Lien Bonds not secured by such Credit Facility; or
 - (iv) To modify any of the provisions of this Master Declaration or any Supplemental Declaration in any other respect whatever, as long as the modification shall take effect only after all affected Outstanding Second Lien Bonds cease to be Outstanding.

10.2 This Master Declaration may be amended for any other purpose only upon consent of Second Lien Bond Owners of not less than fifty-one percent (51%) in aggregate principal amount of the Second Lien Bonds outstanding; provided, however, that no amendment shall be valid without the consent of Second Lien Bond Owners of 100 percent (100%) of the aggregate principal amount of the Second Lien Bonds outstanding which:

- A. Extends the maturity of any Second Lien Bond, reduces the rate of interest upon any Second Lien Bond, extends the time of payment of interest on any Second Lien Bond, reduces the amount of principal payable on any Second Lien Bond, or reduces any premium payable on any Second Lien Bond, without the consent of the affected Second Lien Bond Owner; or
- B. Reduces the percent of Second Lien Bond Owners required to approve Supplemental Declarations.

10.3 For purposes of Section 10.2, and subject to Section 10.4, the initial purchaser of a series of Second Lien Bonds may be treated as the Owner of that Series at the time that series of Second Lien Bonds is delivered in exchange for payment.

10.4 Except as otherwise expressly provided in a Supplemental Declaration, as long as a Credit Facility (other than a Reserve Credit Facility) securing all or a portion of any Outstanding Second Lien Bonds is in effect, the issuer of such Credit Facility shall be deemed to be the Second Lien Bond Owner of the Second Lien Bonds secured by such Credit Facility:

- A. At all times for the purpose of the execution and delivery of a Supplemental Declaration or of any amendment, change or modification of this Master Declaration or the initiation by Second Lien Bond Owners of any action which under this Master Declaration requires the written approval or consent of or can be initiated by the Second Lien Bond Owners of at least a majority in principal amount of the affected Second Lien Bonds at the time Outstanding; and following an Event of Default for all other purposes;
- B. Notwithstanding the foregoing, the issuer of such Credit Facility shall not be deemed to be a Second Lien Bond Owner secured thereby with respect to any such Supplemental Declaration or of any amendment, change or modification of this Master Declaration which:
 - (i) Would result in a downgrading or withdrawal of the rating then assigned to the affected Second Lien Bonds by the Rating Agencies; or

- (ii) Changes the maturity (except as expressly permitted herein), the Interest Payment Dates, interest rates, redemption and purchase provisions, and provisions regarding notices of redemption and purchase applicable to the affected Second Lien Bonds or diminishes the security afforded by such Credit Facility; or
 - (iii) Reduces the percentage or otherwise affects the classes of affected Second Lien Bonds, the consent of the Second Lien Bond Owners of which is required to effect any such modification or amendment.
- C. In addition and notwithstanding the foregoing, no issuer of a Credit Facility given as security for any Second Lien Bonds shall be entitled to exercise any rights under this Section during any period where:
- (i) The Credit Agreement or Credit Facility to which such Credit Provider is a party shall not be in full force and effect;
 - (ii) Such Credit Provider shall have filed a petition or otherwise sought relief under any federal or state bankruptcy or similar law;
 - (iii) Such Credit Provider shall, for any reason, have failed or refused to honor a proper demand for payment under such Credit Facility; or
 - (iv) An order or decree shall have been entered, with the consent or acquiescence of such Credit Provider, appointing a receiver or receivers or the assets of the Credit Provider, or if such order or decree having been entered without the consent or acquiescence of such Credit Provider, shall not have been vacated or discharged or stayed within ninety (90) days after the entry thereof.
- D. For purposes of determining the percentage of Second Lien Bond Owners consenting to, waiving or otherwise acting with respect to any matter that may arise under this Master Declaration, the Owners of Second Lien Bonds which pay interest only at maturity, and mature more than one year after they are issued shall be treated as Owners of Second Lien Bonds in an aggregate principal amount equal to the accreted value of such Second Lien Bonds as of the date the Registrar sends out notice of requesting consent, waiver or other action as provided herein.

Section 11. Defeasance.

11.1 The City may defease and deem all or any portion of the Outstanding Second Lien Bonds to be paid by:

- A. Irrevocably depositing (1) cash, (2) non-callable direct obligations of the United States of America (“Treasuries”), (3) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, (4) pre-refunded municipal obligations rated “AAA” and “Aaa” by S&P and Moody’s, respectively or (5) securities eligible for “AAA” defeasance under then existing criteria of S & P or any combination thereof. Only these above forms of payment shall be authorized to be used to effect defeasance of the Second Lien Bonds unless the Insurer of the defeased Second Lien Bonds otherwise approves; and,
- B. Delivering (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the insurer of the 2003 Series A Bonds (“Accountant”) verifying the sufficiency of the escrow established to pay the Second Lien Bonds in full on the maturity or redemption date (“Verification”), (ii) an Escrow Deposit Agreement (which shall be acceptable in form and substance to any Insurer of the defeased Second Lien Bonds), and (iii) an opinion of nationally recognized bond counsel to the effect that the Second Lien Bonds are no longer Outstanding under this Master Declaration; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the City, the Registrar and any Insurer of the defeased Second Lien Bonds. The insurer of the 2003 Series A Bonds shall be provided with final drafts of the above-referenced documentation not less than five (5) Business Days prior to the funding of the escrow; and,

C. Filing with the escrow agent an opinion of nationally recognized bond counsel that the proposed defeasance will not cause interest on the defeased Second Lien Bonds to be includable in gross income under the Code.

11.2 Second Lien Bonds shall be deemed Outstanding under this Master Declaration unless and until they are in fact paid and retired or the above criteria are met.

11.3 Amounts paid by an Insurer under an Insurance Policy shall not be deemed paid for purposes of this Master Declaration and shall remain Outstanding and continue to be due and owing until paid by the City in accordance with this Master Declaration. This Master Declaration shall not be discharged unless all amounts due or to become due to the Insurer have been paid in full or duly provided for.

11.4 If Second Lien Bonds are defeased under this Section, all obligations of the City with respect to those defeased Second Lien Bonds shall cease and terminate, except for the obligation of the City, the escrow agent and the Registrar to pay the defeased Second Lien Bonds from the amounts deposited in escrow, and the obligation of the Registrar to continue to transfer Second Lien Bonds as provided in this Master Declaration.

Section 12. BEO System.

12.1 Unless otherwise provided by a Supplemental Declaration, all Second Lien Bonds shall be subject to the BEO System pursuant to the provisions of this Section 12.

12.2 The Second Lien Bonds shall be initially issued as a BEO security issue with no Second Lien Bonds being made available to the Second Lien Bond Owners upon the execution and delivery of the letter of representations among the Registrar, DTC and the City. Ownership of the Second Lien Bonds shall be recorded through entries on the books of banks and broker-dealer participants and correspondents that are related to entries on the DTC BEO system. The Second Lien Bonds shall be initially issued in the form of separate single fully registered typewritten Second Lien Bonds for each maturity of the Second Lien Bonds (the "Global Second Lien Bonds") in substantially the form attached hereto as Exhibit B with such changes as the Debt Manager may approve. Each Global Second Lien Bond shall be registered in the name of CEDE & CO. as nominee (the "Nominee") of DTC (DTC and any other qualified securities depository designated by the City as a successor to DTC, collectively the "Depository") as the "Registered Owner", and such Global Second Lien Bonds shall be lodged with the Depository until early redemption or maturity of the Second Lien Bond issue. The Registrar shall remit payment for the maturing principal and interest on the Second Lien Bonds to the Second Lien Bond Owner for distribution by the Nominee for the benefit of the owners (the "Beneficial Owner" or "Record Owner") by recorded entry on the books of the Depository participants and correspondents. While the Second Lien Bonds are in BEO form, the Second Lien Bonds will be available in denominations of \$5,000 or any integral multiple thereof.

12.3 In the event the Depository determines not to continue to act as securities depository for the Second Lien Bonds, or the City determines that the Depository shall no longer so act, then the City will discontinue the BEO system with the Depository. If the City fails to designate another qualified securities depository to replace the Depository or elects to discontinue use of a BEO system, the Second Lien Bonds shall no longer be a BEO issue but shall be registered in the registration books maintained by the Registrar in the name of the Second Lien Bond Owner as appearing on the Second Lien Bond register and thereafter in the name or names of the Second Lien Bond Owners of the Second Lien Bonds transferring or exchanging Second Lien Bonds.

12.4 While the Second Lien Bonds are in BEO form, the City and the Registrar shall have no responsibility or obligation to any participant or correspondent of the Depository or to any Registered Owner on behalf of which such participants or correspondents act as agent for the Second Lien Bond Owner with respect to:

- A. The accuracy of the records of the Depository, the Nominee or any participant or correspondent with respect to any ownership interest in the Second Lien Bonds;
- B. The delivery to any participant or correspondent or any other person, other than an Second Lien Bond Owner as shown in the registration books maintained by the Registrar, of any notice with respect to the Second Lien Bonds, including any notice of prepayment;
- C. The selection by the Depository of the beneficial interest in Second Lien Bonds to be redeemed prior to maturity; or

D. The payment to any participant, correspondent, or any other person other than the owner of the Second Lien Bonds as shown in the registration books maintained by the Registrar, of any amount with respect to principal of or interest on the Second Lien Bonds.

12.5 Notwithstanding the BEO system, the City may treat and consider the Owner in whose name each Second Lien Bond is registered in the registration books maintained by the Registrar as the Second Lien Bond Owner and absolute owner of such Second Lien Bond for the purpose of payment of principal and interest with respect to such Second Lien Bond, or for the purpose of giving notices of redemption and other matters with respect to such Second Lien Bond, or for the purpose of registering transfers with respect to such Second Lien Bond, or for all other purposes whatsoever. The City shall pay or cause to be paid all principal and interest on the Second Lien Bonds only to or upon the order of the Registered Owner, as shown in the registration books maintained by the Registrar, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the City's obligation with respect to payment thereof to the extent of the sum or sums so paid.

12.6 Upon delivery by the Depository to the City and to the Second Lien Bond Owner of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, then the word "Nominee" in this Master Declaration shall refer to such new nominee of the Depository, and upon receipt of such notice, the City shall promptly deliver a copy thereof to the Registrar. The Depository shall tender the Second Lien Bonds it holds to the Registrar for reregistration.

Section 13. Redemption of Second Lien Bonds.

13.1 Unless otherwise provided by a Supplemental Declaration, all Second Lien Bonds shall be subject to the redemption terms of this Section 13.

13.2 If Second Lien Bonds are subject to mandatory redemption the Registrar shall, without further action by the City, select the particular Second Lien Bonds to be redeemed in accordance with the mandatory redemption schedule, by lot within each maturity, call the selected Second Lien Bonds, and give notice of their redemption in accordance with this Section 13.

13.3 If certain maturities of Second Lien Bonds are subject to both optional and mandatory redemption, the City may elect to apply any of those Second Lien Bonds which it has previously optionally redeemed. In addition, if the City purchases Second Lien Bonds which are subject to mandatory redemption, the City may elect to apply against the mandatory redemption requirement any such Second Lien Bonds which it has previously purchased. If the City makes such an election, it shall notify the Registrar not less than sixty days prior to the mandatory redemption date to which the election applies.

13.4 So long as the BEO-System remains in effect with respect to the Second Lien Bonds, the City shall notify the Registrar of any early redemption not less than 40 days prior to the date fixed for redemption, the Registrar shall notify the Depository of any early redemption not less than 30 but no more than 60 days prior to the date fixed for redemption, and shall provide such information in connection therewith as required by the letter of representations submitted to DTC in connection with the issuance of the Second Lien Bonds.

13.5 During any period in which the BEO System is not in effect with respect to the Second Lien Bonds, unless waived by any Owner of the Second Lien Bonds to be redeemed, official notice of any redemption of Second Lien Bonds shall be given by the Registrar on behalf of the City by mailing a copy of an official redemption notice by first class mail postage prepaid at least 30 days and not more than 60 days prior to the date fixed for redemption to the Owner of the Second Lien Bond or Second Lien Bonds to be redeemed, at the address shown on the Second Lien Bond Register or at such other address as is furnished in writing by such owner to the Registrar. The City shall notify the Registrar of any intended redemption not less than 45 days prior to the redemption date. All such official notices of redemption shall be dated and shall state:

- A. The redemption date;
- B. The redemption price;
- C. If less than all Outstanding Second Lien Bonds are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the Second Lien Bonds to be redeemed;

- D. That on the redemption date the redemption price will become due and payable upon each such Second Lien Bond or portion thereof called for redemption, and that interest thereon shall cease to accrue from and after said date; and
- E. The place where such Second Lien Bonds are to be surrendered for payment of the redemption price, which place of payment shall be the principal office of the Registrar.

13.6 The City shall deposit with the Registrar, on or before the redemption date, an amount of money sufficient to pay the redemption price of all the Second Lien Bonds or portions of Second Lien Bonds which are to be redeemed on that date.

13.7 Official notice of redemption having been given as aforesaid, the Second Lien Bonds or portions of Second Lien Bonds to be redeemed shall, on the redemption date, become due and payable at the Redemption Price therein specified, and from and after such date (unless the City shall default in the payment of the redemption price) such Second Lien Bonds or portions of Second Lien Bonds shall cease to bear interest. Upon surrender of such Second Lien Bonds for redemption in accordance with said notice, such Second Lien Bonds shall be paid by the Registrar at the Redemption Price. Installments of interest due on or prior to the redemption date shall be payable as herein provided for payment of interest. Upon surrender for any partial redemption of any Second Lien Bond, there shall be prepared for the registered owner a new Second Lien Bond or Second Lien Bonds of the same maturity in the amount of the unpaid principal. All Second Lien Bonds which have been redeemed shall be canceled and destroyed by the Registrar and shall not be reissued. Notwithstanding that any Second Lien Bonds called for redemption shall not have been surrendered, no further interest shall accrue on any such Second Lien Bonds. From and after such notice having been given and such deposit having been made, the Second Lien Bonds to be redeemed shall not be deemed to be Outstanding hereunder, and the City shall be under no further liability in respect thereof.

Section 14. Authentication, Registration and Transfer.

14.1 The provisions of this Section 14 apply only if the Second Lien Bonds cease to be a BEO issue, and unless otherwise specified in a Supplemental Declaration.

14.2 No Second Lien Bond shall be entitled to any right or benefit under this Master Declaration unless it shall have been authenticated by an authorized officer of the Registrar. The Registrar shall authenticate all Second Lien Bonds to be delivered at closing, and shall additionally authenticate all Second Lien Bonds properly surrendered for exchange or transfer pursuant to this Master Declaration.

14.3 All Second Lien Bonds shall be in registered form. Bank of America Oregon is hereby appointed to serve as Registrar for the Second Lien Bonds. A successor Registrar may be appointed for the Second Lien Bonds by ordinance or resolution of the City. The Registrar shall provide notice to Second Lien Bond Owners of any change in the Registrar not later than the Second Lien Bond payment date following the change in Registrar.

14.4 The ownership of all Second Lien Bonds shall be entered in the Second Lien Bond register maintained by the Registrar and the City and Registrar may treat the person listed as owner in the Second Lien Bond register as the owner of the Second Lien Bond for all purposes.

14.5 The Registrar shall mail each interest payment on the Interest Payment Date (or the next Business Day if the Interest Payment Date is not a Business Day) to the name and address of the Second Lien Bond Owner, as that name and address appear on the Second Lien Bond register as of the Record Date. If payment is so mailed, neither the City nor the Registrar shall have any further liability to any party for such payment.

14.6 Second Lien Bonds may be exchanged for an equal principal amount of Second Lien Bonds of the same maturity which are in different authorized denominations, and Second Lien Bonds may be transferred to other owners if the Second Lien Bond Owner submits the following to the Registrar:

- A. Written instructions for exchange or transfer satisfactory to the Registrar, signed by the Second Lien Bond Owner or his attorney in fact and guaranteed or witnessed in a manner satisfactory to the Registrar; and
- B. The Second Lien Bonds to be exchanged or transferred.

14.7 The Registrar shall not be required to exchange or transfer any Second Lien Bonds submitted to it during any period beginning with a Record Date and ending on the next following payment date; however, such Second Lien Bonds shall be exchanged or transferred promptly following the payment date.

14.8 The Registrar shall not be required to exchange or transfer any Second Lien Bonds which have been designated for redemption if such Second Lien Bonds are submitted to it during the fifteen-day period preceding the designated redemption date.

14.9 For purposes of this section, Second Lien Bonds shall be considered submitted to the Registrar on the date the Registrar actually receives the materials described in Section 14.6.

14.10 The City may alter these provisions regarding registration and transfer by mailing notification of the altered provisions to all Second Lien Bond Owners. The altered provisions shall take effect on the date stated in the notice, which shall not be earlier than 45 days after notice is mailed.



APPENDIX C
AUDITED FINANCIAL STATEMENTS



INTRODUCTION TO FINANCIAL STATEMENTS

The financial statements of the City have been audited by independent certified public accountants for the fiscal years 2001, 2002, 2003, 2004, and 2005.

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

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

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

The following pages in this Appendix C are excerpted from the Comprehensive Annual Financial Reports of the City for the Fiscal Years ending June 30, 2001 through June 30, 2005.

A CONSENT OF THE INDEPENDENT AUDITOR WAS NOT REQUESTED. THE AUDITOR WAS NOT REQUESTED TO PERFORM AND HAS NOT PERFORMED ANY SERVICE IN CONNECTION WITH THE OFFERING OF THE 2006 BONDS AND IS THEREFORE NOT ASSOCIATED WITH THE OFFERING OF THE 2006 BONDS.



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

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

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

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

Notes:

- (1) Beginning with FY 2001-02, the City adopted the provisions of GASB Statement No. 34, which establishes new requirements and a new reporting model for the annual financial reports of state and local governments. Financial statement information presented for FY 2001-02 is reported separately, as financial reports for prior fiscal years included in this report have not been restated to the GASB 34 format for comparative purposes.

Source: City of Portland audited financial statements.

**CITY OF PORTLAND, OREGON
SEWAGE DISPOSAL FUND
COMBINED BALANCE SHEET
As of June 30**

	<u>2001</u>
Current assets:	
Cash and investments	\$22,066,978
Receivables:	
Accounts	36,281,905
Assessments	4,952,434
Advances	8,242
Accrued interest	213,610
Due from other funds	4,190,768
Inventories	798,294
	<hr/>
Total current assets	68,512,231
	<hr/>
Restricted assets:	
Construction:	
Cash and investments	105,127,795
Due from other funds	4,047,522
Accrued interest	1,586,446
Growth impact and plumbing trust:	
Cash and investments	1,149,823
Assessments/accounts receivable	393,379
Due from other funds	--
Accrued interest	13,639
Bonded debt service:	
Cash and investments	10,000
Accrued interest	29,350
	<hr/>
Total restricted assets	112,357,954
	<hr/>
Fixed assets:	
Land	23,186,965
Plant, buildings and improvements	1,179,428,608
Machinery and equipment	14,392,201
Construction in progress	209,876,969
Capitalized lease	3,836,353
Accumulated depreciation	(112,369,229)
	<hr/>
Fixed assets net of depreciation/amort.	1,318,351,867
	<hr/>
Total assets	<u><u>1,499,222,052</u></u>

**CITY OF PORTLAND, OREGON
SEWAGE DISPOSAL FUND
COMBINED BALANCE SHEET
As of June 30**

2001

**Current liabilities (payable from
unrestricted assets):**

Warrants and accounts payable	9,599,029
Accrued compensated absences	2,358,481
Other accrued liabilities	1,145,976
Obligation under capital lease	373,652
	13,477,138
Total current liabilities	13,477,138

**Current liabilities (payable from
restricted assets):**

Warrants and accounts payable	4,250
Notes payable within one year	24,323
Bonds payable within one year	22,675,000
Interest payable	6,735,928
	29,439,501
Total restricted liabilities	29,439,501

Revenue bonds payable	712,892,686
Obligation under capital lease	2,219,027
Notes payable	603,711
Prepaid sewer assessments	263,360
	715,978,784
	715,978,784

Total liabilities 758,895,423

Fund Equity:

Contributed capital	503,045,399
Retained earnings:	
Unreserved	237,281,230
	740,326,629
Total fund equity	740,326,629

Total liabilities and fund equity \$1,499,222,052

Source: City of Portland audited financial statements.

CITY OF PORTLAND, OREGON
SEWAGE DISPOSAL FUND
STATEMENT OF REVENUES, EXPENSES, and CHANGES IN FUND NET ASSETS (1)
FISCAL YEAR ENDING JUNE 30

	2002	2003	2004	2005
Operating revenues:				
Service charges and fees	\$159,700,889	\$159,476,837	\$176,571,018	\$185,994,945
Licenses and permits	391,832	503,334	619,686	646,730
Rents and reimbursements	123,607	108,180	77,278	56,291
Miscellaneous	1,950,683	5,863,835	992,005	4,533,484
Total operating revenues	162,167,011	165,952,186	178,259,986	191,231,450
Operating expenses:				
Salaries and wages	22,239,314	24,958,065	26,979,662	28,810,743
Operating supplies	2,628,479	2,068,260	2,459,475	2,206,370
Professional services	30,252,701	33,456,696	34,697,012	35,460,627
Utilities	5,044,392	4,257,473	4,825,027	4,488,714
Miscellaneous	3,138,410	5,708,242	1,299,829	4,758,992
Utility license fees	11,048,119	11,885,708	11,538,268	12,684,307
Bad debt expense	15,202,047	-	-	-
Downspout disconnect program expense	3,522,412	-	-	-
Depreciation expense	14,793,040	15,399,382	17,077,087	17,421,543
Total operating expenses	107,868,914	97,733,826	98,876,359	105,831,296
Operating income (loss)	54,298,097	68,218,360	79,383,627	85,400,154
Nonoperating revenues (expenses):				
Investment earnings	4,640,418	1,823,780	997,154	3,260,994
Interest expense	(35,816,838)	(35,145,809)	(30,557,968)	(50,457,879)
Debt issuance costs	-	-	-	(3,611,363)
Gain (loss) on sale of fixed assets	(71,584)	8,563	26,827	1,264,358
Miscellaneous	1,875,701	(125,000)	148,685	(632,767)
Total nonoperating revenues (expenses)	(29,372,303)	(33,438,466)	(29,385,302)	(50,176,657)
Income (loss) before contributions and transfers	24,925,794	34,779,894	49,998,325	35,223,497
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Capital contributions	2,590,674	2,611,764	4,117,63	2,380,011
Change in net assets	27,516,468	37,391,658	54,115,959	37,603,508
Total net assets -- beginning, as restated	724,557,117	752,073,585	789,465,234	843,581,193
Total net assets -- ending	\$752,073,585	\$789,465,243	\$843,581,193	\$881,184,701

Notes:

(1) Beginning with FY 2001-02, the City adopted the provisions of GASB Statement No. 34, which establishes new requirements and a new reporting model for the annual financial reports of state and local governments. Financial statement information presented for FY 2001-02 is reported separately, as financial reports for prior fiscal years included in this report have not been restated to the GASB 34 format for comparative purposes.

Source: City of Portland audited financial statements.

**CITY OF PORTLAND, OREGON
SEWAGE DISPOSAL FUND
STATEMENT OF REVENUES, EXPENDITURES and CHANGES IN RETAINED EARNINGS
Fiscal Year Ending June 30**

2000-01

Operating Revenues:

Service charges and fees	\$136,445,145
Licenses and permits	289,567
Rents and reimbursements	71,872
Miscellaneous	1,781,057
	138,587,641
Total operating revenues	138,587,641

Operating Expenses:

Salaries and wages	22,277,032
Operating supplies	2,377,775
Professional services	24,574,804
Utilities	4,172,504
Utility license fees	8,588,283
Depreciation	11,931,154
Miscellaneous	5,781,446
	79,702,998
Total operating expenses	79,702,998
Operating Income (Loss)	58,884,643

Non-Operating Revenues (Expenses):

Interest on investments	9,912,706
Interest expense	(29,783,031)
Loss on disposal of fixed assets	(61,173)
Other miscellaneous revenues (expenses)	4,741,410
	(15,190,088)
Total nonoperating revenue (expenses)	(15,190,088)
Income before operating transfers	43,694,555

Operating transfers in (out) (1,052,489)

Capital contributions 6,769,560

Net Income (loss) 49,411,626

Retained Earnings, July 1 187,869,604

Retained Earnings, June 30 \$237,281,230

Source: City of Portland audited financial statements.

APPENDIX D
LEGAL OPINIONS



May 25, 2006

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

Merrill Lynch
4 World Financial Center, 9th Floor
New York, New York 10080

Subject: \$177,845,000 City of Portland, Oregon, First Lien Sewer System Revenue Bonds,
2006 Series A

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Portland, Oregon (the "City") of its First Lien Sewer System Revenue Bonds, 2006 Series A (the "2006 Series A Bonds"), in the aggregate principal amount of One Hundred and Seventy-Seven Million Eight Hundred Forty-Five Thousand Dollars (\$177,845,000), pursuant to City Ordinance No. 160276 (the "First Lien Bond Ordinance"), City Ordinance No. 179918 and City Ordinance No. 180048. We have examined the law and such certified proceedings and other documents as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the City contained in the Ordinance and other certified proceedings and certifications of officials of the City and others furnished to us without undertaking to verify such representations and certifications by independent investigation. We have also relied on the covenants of the City to comply with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code") with respect to the investment and use of proceeds of the 2006 Series A Bonds.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of any of the preliminary official statement, the official statement or other offering materials relating to the 2006 Series A Bonds, and we express no opinion relating thereto.

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

1. The 2006 Series A Bonds have been legally authorized, sold and issued under and pursuant to the Constitution and Statutes of the State of Oregon and the Charter of the City. The 2006 Series A Bonds constitute valid and legally binding special obligations of the City enforceable in accordance with their terms. The 2006 Series A Bonds are payable solely from the revenues of the City's sewer system and related amounts that are pledged, as provided in the First Lien Bond Ordinance.

2. Interest on the 2006 Series A Bonds is excluded from gross income for federal income tax purposes under existing law.

3. Interest on the 2006 Series A Bonds is not an item of tax preference under the Code for purposes of determining the alternative minimum tax imposed on individuals or corporations. Interest on a 2006 Series A Bond held by a corporation (other than an S Corporation, regulated investment company, real estate investment trust or real estate mortgage investment conduit) may be indirectly subject to alternative minimum tax because of its inclusion in the earnings and profits of the corporate holder. Interest on a 2006 Series A Bond held by a foreign corporation may be subject to the branch profits tax imposed by the Code.

4. Interest on the 2006 Series A Bonds is exempt from Oregon personal income tax under existing law.

Legal Opinion
May 25, 2006
Page 2

5. Interest on the 2006 Series A Bonds is exempt from personal income taxation by Multnomah County, Oregon, under existing law.

We note that the City has not designated the 2006 Series A Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code.

Ownership of the 2006 Series A Bonds may result in collateral federal income tax consequences to certain taxpayers, including financial institutions, property and casualty insurance companies, S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the 2006 Series A Bonds. We express no opinion as to such collateral federal income tax consequences.

Under the Code, the City is required to comply with certain requirements relating to the investment and use of the proceeds of the 2006 Series A Bonds, and the City has covenanted to comply with these requirements. Failure to comply with these requirements may cause the interest on the 2006 Series A Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the 2006 Series A Bonds. Our opinion assumes compliance with such covenants, and we do not undertake to determine, or to inform any person, whether any actions taken or not taken, or events occurring or not occurring, after the date of issuance of the 2006 Series A Bonds may affect the tax status of interest on the 2006 Series A Bonds.

We express no opinion regarding any other federal, state or local tax consequences arising with respect to ownership of the 2006 Series A Bonds.

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

These opinions are based on existing law and we assume no obligation to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur or become effective.

The opinions set forth above are qualified only to the extent that enforceability of the 2006 Series A Bonds may be limited by or rendered ineffective by (i) bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting creditors' rights generally; (ii) the application of equitable principles and the exercise of judicial discretion in appropriate cases; (iii) common law and statutes affecting the enforceability of contractual obligations generally; (iv) principles of public policy concerning, affecting or limiting the enforcement of rights or remedies against governmental entities such as the City.

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

Legal Opinion
May 25, 2006
Page 3

The opinions expressed herein are solely for your benefit in connection with the above referenced bond financing and may not be relied on in any manner or for any purpose by any person or entity other than the addressees listed above and the owners of the 2006 Series A Bond, nor may copies be furnished to any other person or entity, without the prior written consent to Preston Gates & Ellis LLP.

We have served only as bond counsel to the City and have not and are not representing any other party in connection with the 2006 Series A Bonds. Therefore, no attorney-client relationship shall arise by virtue of our addressing this opinion to persons other than the City.

Respectfully submitted,

PRESTON GATES & ELLIS LLP

Lawyers



May 25, 2006

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

Banc of America Securities LLC
600 Montgomery Street
San Francisco, California 94111

Subject: \$87,135,000 City of Portland, Oregon, Second Lien Sewer System Revenue Bonds, 2006 Series B

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Portland, Oregon (the "City") of its Second Lien Sewer System Revenue Bonds, 2006 Series B (the "2006 Series B Bonds"), in the aggregate principal amount of Eighty-Seven Million One Hundred Thirty-Five Thousand Dollars (\$87,135,000), pursuant to the City's Ordinance No. 180048 (the "Ordinance") and a Master Second Lien Sewer System Revenue Bond Declaration dated April 3, 2003 (the "Master Declaration"). We have examined the law and such certified proceedings and other documents as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the City contained in the Ordinance and the Master Declaration and other certified proceedings and certifications of officials of the City and others furnished to us without undertaking to verify such representations and certifications by independent investigation. We have also relied on the covenants of the City to comply with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code") with respect to the investment and use of proceeds of the 2006 Series B Bonds.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of any of the preliminary official statement, the official statement or other offering materials relating to the 2006 Series B Bonds, and we express no opinion relating thereto.

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

1. The 2006 Series B Bonds have been legally authorized, sold and issued under and pursuant to the Constitution and Statutes of the State of Oregon and the Charter of the City. The 2006 Series B Bonds constitute valid and legally binding special obligations of the City enforceable in accordance with their terms. The 2006 Series B Bonds are payable solely from the revenues of the City's sewer system and related amounts that are pledged to pay second lien bonds, as provided in the Master Declaration.

2. Interest on the 2006 Series B Bonds is excluded from gross income for federal income tax purposes under existing law.

3. Interest on the 2006 Series B Bonds is not an item of tax preference under the Code for purposes of determining the alternative minimum tax imposed on individuals or corporations. Interest on a 2006 Series B Bond held by a corporation (other than an S Corporation, regulated investment company, real estate investment trust or real estate mortgage investment conduit) may be indirectly subject to alternative minimum tax because of its inclusion in the earnings and profits of the corporate holder. Interest on a 2006 Series B Bond held by a foreign corporation may be subject to the branch profits tax imposed by the Code.

4. Interest on the 2006 Series B Bonds is exempt from Oregon personal income tax under existing law.

5. Interest on the 2006 Series B Bonds is exempt from personal income taxation by Multnomah County, Oregon, under existing law.

We note that the City has not designated the 2006 Series B Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code.

Ownership of the 2006 Series B Bonds may result in collateral federal income tax consequences to certain taxpayers, including financial institutions, property and casualty insurance companies, S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the 2006 Series B Bonds. We express no opinion as to such collateral federal income tax consequences.

Under the Code, the City is required to comply with certain requirements relating to the investment and use of the proceeds of the 2006 Series B Bonds, and the City has covenanted to comply with these requirements. Failure to comply with these requirements may cause the interest on the 2006 Series B Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the 2006 Series B Bonds. Our opinion assumes compliance with such covenants, and we do not undertake to determine, or to inform any person, whether any actions taken or not taken, or events occurring or not occurring, after the date of issuance of the 2006 Series B Bonds may affect the tax status of interest on the 2006 Series B Bonds.

We express no opinion regarding any other federal, state or local tax consequences arising with respect to ownership of the 2006 Series B Bonds.

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

These opinions are based on existing law and we assume no obligation to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur or become effective.

The opinions set forth above are qualified only to the extent that enforceability of the 2006 Series B Bonds may be limited by or rendered ineffective by (i) bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting creditors' rights generally; (ii) the application of equitable principles and the exercise of judicial discretion in appropriate cases; (iii) common law and statutes affecting the enforceability of contractual obligations generally; (iv) principles of public policy concerning, affecting or limiting the enforcement of rights or remedies against governmental entities such as the City.

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

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The opinions expressed herein are solely for your benefit in connection with the above referenced bond financing and may not be relied on in any manner or for any purpose by any person or entity other than the addressees listed above and the owners of the 2006 Series B Bond, nor may copies be furnished to any other person or entity, without the prior written consent to Preston Gates & Ellis LLP.

We have served only as bond counsel to the City and have not and are not representing any other party in connection with the 2006 Series B Bonds. Therefore, no attorney-client relationship shall arise by virtue of our addressing this opinion to persons other than the City.

Respectfully submitted,

PRESTON GATES & ELLIS LLP

Lawyers



APPENDIX E
CONTINUING DISCLOSURE CERTIFICATES



CONTINUING DISCLOSURE CERTIFICATE
City of Portland, Oregon

\$177,845,000
City of Portland, Oregon
First Lien Sewer System Revenue Bonds
2006 Series A

This Continuing Disclosure Certificate (the “Certificate”) is executed and delivered by the City of Portland, Oregon (the “City”) in connection with the issuance of the City’s First Lien Sewer System Revenue Bonds, 2006 Series A (the “2006 Series A Bonds”).

Section 1. Purpose of Certificate. This Certificate is being executed and delivered by the City for the benefit of the 2006 Series A Bondowners and to assist the underwriter(s) of the 2006 Series A Bonds in complying with paragraph (b)(5) of the Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. § 240.15c2-12), (the “Rule”). This Certificate constitutes the City’s written undertaking for the benefit of the 2006 Series A Bondowners as required by Section (b)(5) of the Rule.

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

“Beneficial Owner” means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any 2006 Series A Bonds, including persons holding 2006 Series A Bonds through nominees or depositories.

“2006 Series A Bondowners” means the registered owners of the 2006 Series A Bonds, as shown on the bond register maintained by the Paying Agent for the 2006 Series A Bonds, and any Beneficial Owners.

“Commission” means the Securities and Exchange Commission.

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

“NRMSIR” means a nationally recognized municipal securities information repository.

“Official Statement” means the final official statement for the 2006 Series A Bonds dated May 16, 2006.

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

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

Section 3. Financial Information. The City agrees to provide or cause to be provided to each NRMSIR and to the SID, if any, in each case as designated by the Commission in accordance with the Rule, the following annual financial information and operating data for the prior fiscal year (commencing no later than March 31, 2007, for the fiscal year ended June 30, 2006):

A. The City’s previous fiscal year annual financial statements prepared in accordance with the Oregon Local Budget Law (or any successor statute) and in accordance with

generally accepted accounting principles so prescribed by the Governmental Accounting Standards Board (or its successors); and,

B. To the extent not included in those annual financial statements, information generally of the type included in the official statement for the 2006 Series A Bonds under the heading "Annual Disclosure Information."

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

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

Section 5. Material Events. The City agrees to provide or cause to be provided, in a timely manner, to the SID, if any, and to each NRMSIR or to the MSRB notice of the occurrence of any of the following events with respect to the 2006 Series A Bonds, if material:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers or their failure to perform;
6. Adverse tax opinions or events affecting the tax-exempt status of the 2006 Series A Bonds;
7. Modifications to the rights of 2006 Series A Bondowners;
8. Bond calls;
9. Defeasances;
10. Release, substitution or sale of property securing repayment of the 2006 Series A Bonds; and
11. Rating changes.

Section 6. Termination/Modification. The City's obligations to provide notices of material events shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 2006 Series A Bonds. This Certificate, or any provision hereof, shall be null and void if the City (a) obtains an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require this Certificate, or any provision hereof, are invalid, have been repealed retroactively or otherwise do not apply to the 2006 Series A Bonds; and (b) notifies each then existing NRMSIR and the SID, if any, of such opinion and the cancellation of this Certificate.

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

- A. If the amendment or waiver relates to the provisions of Sections 3.A or 3.B or Section 5 hereof, it may only be made in connection with a change in circumstances that arises from a change in legal

requirements, change in law, or change in the identity, nature or status of the City with respect to the 2006 Series A Bonds, or the type of business conducted;

B. The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the 2006 Series A Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

C. The amendment or waiver either (i) is approved by the 2006 Series A Bondowners or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the 2006 Series A Bondowners.

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

Section 8. 2006 Series A Bondowner's Remedies Under This Certificate. The right of any 2006 Series A Bondowner to enforce the provisions of this Certificate shall be limited to a right to obtain specific enforcement of the City's obligations hereunder, and any failure by the City to comply with the provisions of this undertaking shall not be an event of default with respect to the 2006 Series A Bonds hereunder. 2006 Series A Bondowners may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the City to comply with its obligations under this Certificate. A default under this Certificate shall not be deemed a default or an event of default under the documents authorizing issuance of the 2006 Series A Bonds, and no monetary damages shall arise or be payable hereunder, and the sole remedy under this Certificate in the event of any failure of the City to comply with this Certificate shall be an action to compel performance.

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

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

Dated as of the 25th day of May, 2006.

City of Portland, Oregon



CONTINUING DISCLOSURE CERTIFICATE

\$87,135,000

City of Portland, Oregon

Second Lien Sewer System Revenue Bonds

2006 Series B

This Continuing Disclosure Certificate (the “Certificate”) is executed and delivered by the City of Portland, Oregon (the “City”) in connection with the issuance of the City’s Second Lien Sewer System Revenue Bonds, 2006 Series B (the “2006 Series B Bonds”).

Section 1. Purpose of Certificate. This Certificate is being executed and delivered by the City for the benefit of the 2006 Series B Bondowners and to assist the underwriter(s) of the 2006 Series B Bonds in complying with paragraph (b)(5) of the Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. § 240.15c2-12), (the “Rule”). This Certificate constitutes the City’s written undertaking for the benefit of the 2006 Series B Bondowners as required by Section (b)(5) of the Rule.

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

“Beneficial Owner” means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any 2006 Series B Bonds, including persons holding 2006 Series B Bonds through nominees or depositories.

“2006 Series B Bondowners” means the registered owners of the 2006 Series B Bonds, as shown on the bond register maintained by the Paying Agent for the 2006 Series B Bonds, and any Beneficial Owners.

“Commission” means the Securities and Exchange Commission.

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

“NRMSIR” means a nationally recognized municipal securities information repository.

“Official Statement” means the final official statement for the 2006 Series B Bonds dated May 16, 2006.

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

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

Section 3. Financial Information. The City agrees to provide or cause to be provided to each NRMSIR and to the SID, if any, in each case as designated by the Commission in accordance with the Rule, the following annual financial information and operating data for the prior fiscal year (commencing no later than March 31, 2007, for the fiscal year ended June 30, 2006):

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

B. To the extent not included in those annual financial statements, information generally of the type included in the official statement for the 2006 Series B Bonds under the heading "Annual Disclosure Information."

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

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

Section 5. Material Events. The City agrees to provide or cause to be provided, in a timely manner, to the SID, if any, and to each NRMSIR or to the MSRB notice of the occurrence of any of the following events with respect to the 2006 Series B Bonds, if material:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers or their failure to perform;
6. Adverse tax opinions or events affecting the tax-exempt status of the 2006 Series B Bonds;
7. Modifications to the rights of 2006 Series B Bondowners;
8. Bond calls;
9. Defeasances;
10. Release, substitution or sale of property securing repayment of the 2006 Series B Bonds; and
11. Rating changes.

Section 6. Termination/Modification. The City's obligations to provide notices of material events shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 2006 Series B Bonds. This Certificate, or any provision hereof, shall be null and void if the City (a) obtains an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require this Certificate, or any provision hereof, are invalid, have been repealed retroactively or otherwise do not apply to the 2006 Series B Bonds; and (b) notifies each then existing NRMSIR and the SID, if any, of such opinion and the cancellation of this Certificate.

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

- A. If the amendment or waiver relates to the provisions of Sections 3.A or 3.B or Section 5 hereof, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the City with respect to the 2006 Series B Bonds, or the type of business conducted;

B. The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the 2006 Series B Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

C. The amendment or waiver either (i) is approved by the 2006 Series B Bondowners or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the 2006 Series B Bondowners.

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

Section 8. 2006 Series B Bondowner's Remedies Under This Certificate. The right of any 2006 Series B Bondowner to enforce the provisions of this Certificate shall be limited to a right to obtain specific enforcement of the City's obligations hereunder, and any failure by the City to comply with the provisions of this undertaking shall not be an event of default with respect to the 2006 Series B Bonds hereunder. 2006 Series B Bondowners may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the City to comply with its obligations under this Certificate. A default under this Certificate shall not be deemed a default or an event of default under the documents authorizing issuance of the 2006 Series B Bonds, and no monetary damages shall arise or be payable hereunder, and the sole remedy under this Certificate in the event of any failure of the City to comply with this Certificate shall be an action to compel performance.

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

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

Dated as of the 25th day of May, 2006.

City of Portland, Oregon



APPENDIX F
BEO SYSTEM



BEO SYSTEM

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

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.]
2. DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.
3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.
4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.
5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to

obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.]

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

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

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

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

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

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

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

APPENDIX G
FINANCIAL GUARANTY INSURANCE POLICY SPECIMEN



FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation Armonk, New York 10504

Policy No. [NUMBER]

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

[PAR]
[LEGAL NAME OF ISSUE]

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

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

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

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

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

MBIA Insurance Corporation

President

Attest:

Assistant Secretary





