

# City of Portland, Oregon



## ANNUAL DEBT REPORT Fiscal Year 2010-11

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*Prepared by:*

**Office of Management and Finance  
Bureau of Financial Services  
Division of Public Finance and Treasury**

This Annual Debt Report is intended to inform the reader regarding the City of Portland's debt position as of the end of the most recent fiscal year. Development of this report began in early 2011 in response to expanded national discussion of issues related to municipal debt. The objective of this report is to present a simplified, yet accurate snapshot of the City's debt position, as well as to describe significant changes in the City's debt profile from the prior fiscal year.

***The City's Annual Debt Report has been independently prepared by the City's Debt Management Program. The Annual Debt Report has not been reviewed by the City's auditors and is not intended as a comprehensive credit analysis for use in making an investment decision. Expressions of opinion in the Annual Debt Report are not intended to guide prospective investors in securities offered by the City and no decision to invest in such securities should be made without performing appropriate due diligence including referencing the City's audited CAFRs and official disclosure documents relating to a specific security.***

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# INTRODUCTION

Recent changes in global economic conditions have brought attention to high-risk financial practices including overexposure to debt and misuse of complex and poorly understood debt instruments by financial institutions, businesses, individuals and governments. Broad media exposure of isolated instances of poor debt management practices has shined a broader spotlight on all debt management practices.

The objective of this Annual Debt Report is to provide information regarding the City's debt profile by describing indicators of the City's debt position that are used by the Office of Management and Finance. These indicators are used by the City to inform debt-related decisions and to identify areas that require enhanced and careful monitoring.

The City has not been immune to the impacts of the recent global recession. As such, post-2009 indicators could be expected to show changes relative to prior years in which the local and global economy was strong and growing. Additionally, certain City programs have required significant infrastructure needs during the five-year period covered by this report. Large capital projects can be funded either through massive one-time fee increases, or the costs can be spread over time through the use of long-term financing. Debt financing spreads costs across a period of time during which an asset will be useable and effectively creates equity by charging those who are using the asset during its useful life. The offsetting impact is an increase in outstanding debt balances due to the asset being financed.

This report presents both a broad view of changes and accomplishments related to overall City debt, and detailed information regarding specific categories of debt. There is no single indicator that effectively describes the City's debt and broad-stroke comparisons may provide an incomplete picture of financial health and sustainability. Indicators that look at specific categories of debt provide more useful information regarding revenues supporting the debt, year-over-year changes, and the health and specific risks of a given category of debt. It is also important to recognize that changes in policy decisions, major capital requirements and economic conditions may affect categories of debt differently.

When possible, historical data in this report conforms to audited information that can be found in the City's Comprehensive Annual Financial Reports. However, due to timing issues and differences in reporting standards, some data in this report may differ slightly from those in the financial audit. While we believe information in this report is accurate, it should not be relied upon in making investment decisions. Prospective investors should refer to the City's official bond disclosure and audited financial reports.

Future Annual Debt Reports are expected to be published within three months from the end of the fiscal year (June 30). These reports may differ in both form and content from this Fiscal Year 2010-11 report based upon feedback and questions generated by this initial version.



# FISCAL YEAR 2010-11 YEAR IN REVIEW

## Summary of Fiscal Year 2010-11 Debt Activity

Total Citywide debt outstanding (including urban renewal debt related to the Portland Development Commission) saw a net increase of approximately 8%, or \$244.88 million, in fiscal year 2010-11. As described later in this report, over 75% of debt issued was for water and sewer infrastructure.

## Bond Sales and Other Financings

The City targets distribution of bonds to a broad pool of investors so that all interested investors have an opportunity to participate in the City's bond offerings. Additionally, the City executes direct borrowings (i.e., lines of credit and/or bank loans) for short-term lines of credit and other smaller-sized financings that cannot be cost-effectively completed via public markets. The City supports active competition for underwriting and banking business to encourage the lowest possible costs of borrowing.

**Table 1: Fiscal Year 2010-11 Change in Total Debt Outstanding**

Outstanding Total Debt, as of July 1, 2010	<u>\$3,039,362,402</u>
Increases in Debt Outstanding:	
New Money Bonds Issued	\$356,520,000
Refunding Bonds Issued	10,125,000
Line of Credit Takeout Bonds Issued	254,615,000
Short-Term Notes Issued	21,825,000
Line of Credit Draws	<u>168,324,163</u>
<b>Total Increases in Debt Outstanding</b>	<u>\$811,409,163</u>
Reductions to Outstanding Debt:	
Bonds & Notes Paid/Matured as Scheduled	\$173,855,787
Bonds Redeemed Prior to Maturity	3,310,000
Bonds Refunded	10,090,000
Line of Credit Reductions	<u>379,270,977</u>
<b>Total Reductions in Outstanding Debt</b>	<u>\$566,526,764</u>
<b>Net Increase (Decrease) in Outstanding Debt</b>	<u>\$244,882,399</u>
Outstanding Total Debt, as of June 30, 2011	<u>\$3,284,244,801</u>

**Table 2: Debt Issuance in Fiscal Year 2010-11**

<u>Long-Term Bond Issues</u>	<u>Date of Issue</u>	<u>Final Maturity</u>	<u>Par Amount</u>	<u>Debt Type</u>
Second Lien Sewer System Revenue Bonds, 2010 Series A	8/19/2010	2035	\$407,850,000	Revenue
North Macadam Urban Renewal and Redevelopment Bonds, 2010 Series A (Taxable)	9/23/2010	2022	29,645,000	Urban Renewal
North Macadam Urban Renewal and Redevelopment Bonds, 2010 Series B (Tax-Exempt)	9/23/2010	2030	35,280,000	Urban Renewal
First Lien Water System Revenue Bonds, 2011 Series A	3/22/2011	2036	82,835,000	Revenue
Central Eastside Urban Renewal and Redevelopment Bonds, 2011 Series A (Taxable)	3/31/2011	2021	10,205,000	Urban Renewal
Central Eastside Urban Renewal and Redevelopment Bonds, 2011 Series B (Tax-Exempt)	3/31/2011	2031	19,485,000	Urban Renewal
General Obligation Public Safety Bonds, 2011 Series A	5/19/2011	2026	25,835,000	Unlimited Tax
<b><u>Bank Loans and Credit Facilities</u></b>				
Parks Maintenance Credit Facility (1)	3/17/2011	2016	3,210,000	Limited Tax
Local Improvement District Credit Facility (1)	11/21/2010	2015	20,000,000	Limited Tax
Transportation Credit Facility (1)	10/8/2010	2015	7,500,000	Revenue
Convention Center Urban Renewal and Redevelopment Refunding Bonds, 2011 Series A (Taxable)	5/19/2011	2013	7,540,000	Urban Renewal
South Park Blocks Urban Renewal and Redevelopment Refunding Bonds, 2011 Series A (Taxable)	5/19/2011	2013	2,585,000	Urban Renewal

(1) Reflects maximum capacity of credit facility. Outstanding balance may be less than the maximum capacity.

## Rating Actions

In fiscal year 2010-11, the City received rating assignments and/or updates on eight bond issues. None of the underlying ratings on outstanding bonds of the City were upgraded or downgraded.

**Table 3: Long-Term Debt Rating Actions in Fiscal Year 2010-11**

	<u>Rating Type</u>	<u>Rating</u>		<u>Date</u>
		<u>Moody's</u>	<u>S&amp;P</u>	
Central Eastside Urban Renewal and Redevelopment Bonds	Initial	A2	--	March 2010
Second Lien Sewer System Revenue Bonds	Affirmed	Aa3	AA	August 2010
First Lien Sewer System Revenue Bonds	Affirmed	Aa2	AA	August 2010
North Macadam Urban Renewal and Redevelopment Bonds	Initial	A1	--	September 2010
Hydroelectric Power Bonds	Affirmed	--	BBB	February 2011
First Lien Water System Revenue Bonds	Affirmed	Aaa	--	March 2011
Second Lien Water System Revenue Bonds	Affirmed	Aa1	--	March 2011
Unlimited Tax General Obligation Bonds	Affirmed	Aaa	--	April 2011

In July 2011, Moody's Investors Services adjusted the outlook on the City's Aaa unlimited tax general obligation bonds and Aa1 limited tax revenue bonds from "stable" to "negative." This action included 161 local governments nationwide. Moody's described the change in outlook as a direct result of rating actions related to federal debt of the United States at that time. Moody's completed a reassessment of the City of Portland's General Obligation Bond and Limited Tax Revenue Bond ratings in December 2011 and reassigned a stable outlook to the City's rating. The December 7, 2011 Moody's comment stated that the reassigned outlook reflected "lesser financial and economic linkage to the US government."

## Refinancing of Outstanding Debt

The City refunded (refinanced) \$10,090,000 in principal amount of long-term urban renewal bonds in fiscal year 2010-11, resulting in a total reduction in debt service of \$748,363 over a 3-year period.

## Post-issuance Compliance – Continuing Disclosure and Arbitrage Rebate Calculations

### Continuing Disclosure

The City has agreed to provide annual updates of certain financial and operating information and other materially important information related to outstanding bonds. Generally, this information must be submitted no later than 9 months after the end of the fiscal year (meaning fiscal year 2009-10 reporting obligations are met during fiscal year 2010-11). In fiscal year 2010-11, the City complied with fiscal year 2009-10 continuing disclosure requirements on all of the City's 68 outstanding bond issues. The City's current continuing disclosure reports can be accessed online at: [www.portlandonline.com/omf/debtdisclosure](http://www.portlandonline.com/omf/debtdisclosure).

### Arbitrage Rebate Calculations

The federal government requires that the City monitor and provide periodic reporting regarding the use and investment of tax-exempt bond proceeds. Investment earnings on bond proceeds that exceed specific levels determined by the federal government must be returned to the federal government as "arbitrage rebate." The City is currently in compliance on all rebate calculations as of June 30, 2011. During fiscal year 2010-11, the City returned \$420,710 in arbitrage rebate to the federal government.

## Other Significant Actions and Accomplishments

- March 2011 The City was recognized by MuniNetGuide.com and the College of Urban Planning and Public Affairs at the University of Illinois at Chicago as one of thirteen cities that "stand out as frontrunners in providing online investor information."
- May 2011 The City Treasurer, responsible for oversight of the Debt Management Group, was appointed as the Chair of the Government Finance Officers Association (GFOA) Debt Committee. This committee is responsible for providing national leadership and developing best practice recommendations regarding debt issuance and debt management for use by municipal governments in the US and Canada. Active participation in municipal industry organizations such as GFOA provides direct benefit to the City in the form of a well-informed staff, and also demonstrates the high regard that the City's Debt Management Program maintains within the public sector nationally.



# THE CITY'S DEBT PORTFOLIO

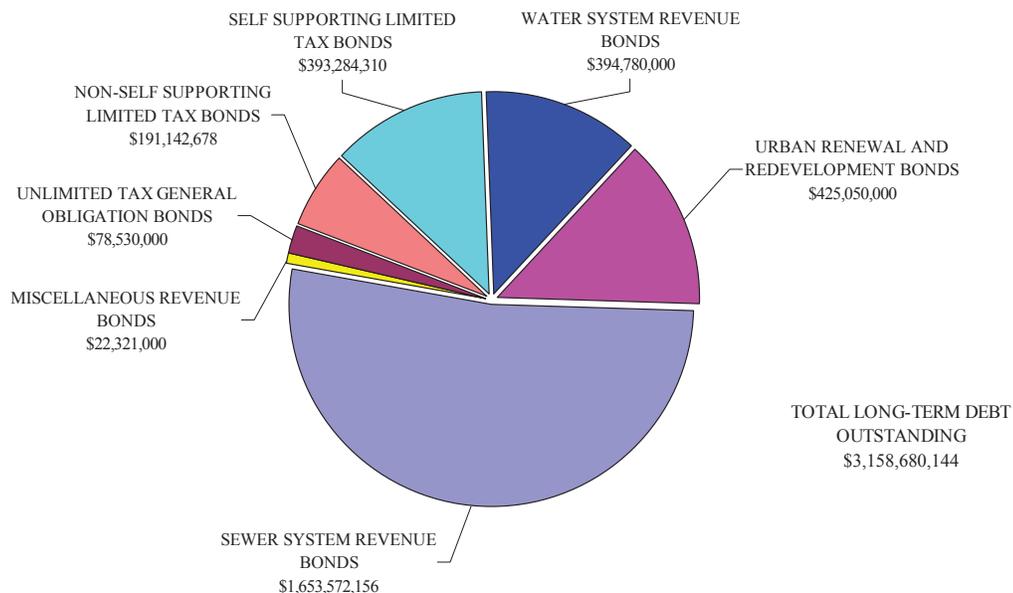
The following terms are used in this section and throughout the Annual Debt Report:

- Outstanding Debt** *the amount of debt that remains to repaid; equal to the amount of debt originally issued, minus principal payments that have been made.*
- Debt Service** *the total payments due on outstanding debt; comprised of both principal and interest. The amount of "annual debt service" associated with a particular bond issue means the amount of principal and interest due to be paid by the City on that bond issue in a given year.*
- Bond Rating** *an indicator of credit quality, assigned by an independent organization that monitors and reviews the City's ability to repay debt.*

## Types of Debt Issued by the City

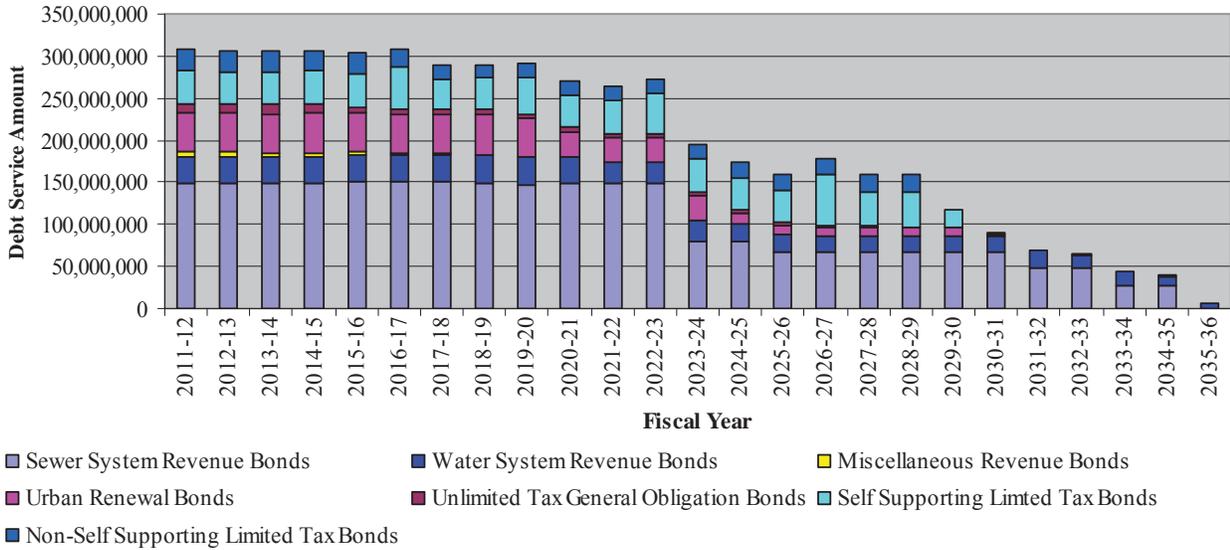
The City issues many different types of debt. While these are all considered debt of the City the actual resources that are committed to repayment of the debt varies. As described more specifically in later sections of this report, approximately 79% of the City's total outstanding debt has no direct legal claim on resources of the City's General Fund. Figure 1 does not include approximately \$125 million in interim financing that may later be converted to long-term debt.

Figure 1: Outstanding Long-Term Debt by Type of Bonds



\* The City's Pension Obligation Bonds are allocated between self-supporting and non-self-supporting based upon the allocation of responsibility between General Fund bureaus and non-General Fund bureaus. Data in this report does not include contingent obligations related to HUD Section 108 loans or conduit bonds issued for non-City entities in which the City serves as the debt issuer but has no legal responsibility for payment of the bonds.

**Figure 2: Total Future Debt Service**



## City Debt Policy

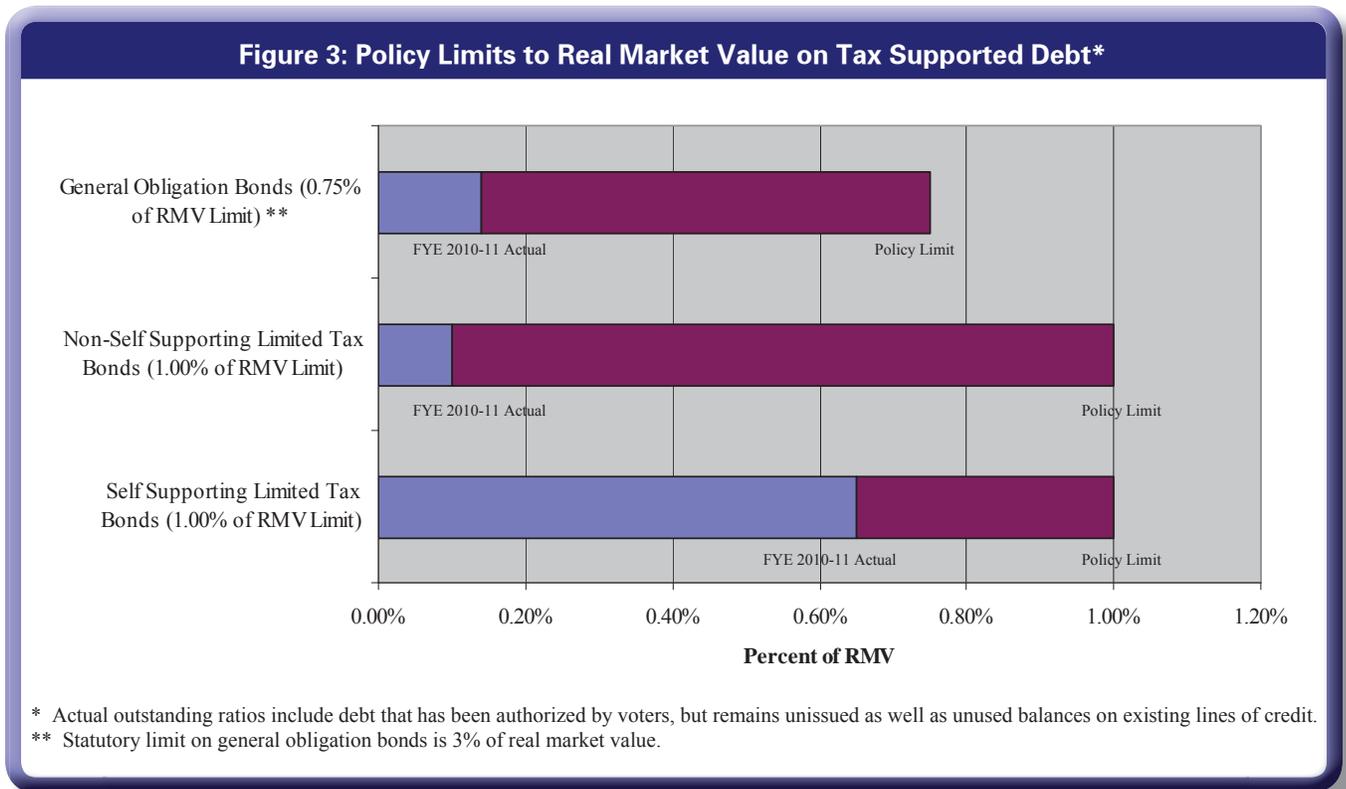
The City maintains and follows a Council-approved debt policy . The debt policy provides formal guidance regarding amounts of debt that can be issued, repayment terms, target debt ratios and other conditions and strategies related to the use of debt. The City is in compliance with all provisions of the debt policy. Some key provisions of the City’s debt policy are listed below. The debt policy can be accessed in its entirety online at [www.portlandonline.com/omf/debtpolicy](http://www.portlandonline.com/omf/debtpolicy).

**Table 4: Selected Provisions of the City Debt Policy**

<u>Policy Provision</u>	<u>Target</u>	<u>Purpose / Objective</u>
Sale Method	Competitive preference	Match to GFOA Best Practice
Repayment of Principal	20% in 5 years; 40% in 10 years	Encourage rapid repayment of debt
Limits on Debt Outstanding	Varies, see below	Prevent General Fund exposure to excessive debt payment requirements
Limit on Debt Service paid by the General Fund	No more than 7% of annual General Fund revenues	Limit total debt service obligation of General Fund
Revenue Bond Debt Service Coverage & Reserves	Subject to Debt Manager’s approval	Encourages strong credit quality; provides flexibility to accommodate specific borrowing programs
Capital Contribution	Minimum 5% of total project cost paid from cash	Encourages mix of debt and pay-as-you-go financing sources
Minimum Bond Rating (for public bond sales)	A3 (Moody’s) and/or A- (S&P)	Discourages issuance of high-risk, non-investment grade bonds
Refunding Requirements	3%-5% minimum savings	Avoids excessive and/or inefficient bond refinancing efforts

## Limits on Debt Supported by Property Taxes

The City’s debt policy imposes specific limits on the amount of property tax-supported debt that can be outstanding at any time. Limits are based upon a percentage of real market value within the City (the City’s fiscal year 2010-11 real market value is \$86,374,680,444). The limits in the City’s debt policy are more restrictive than the limitations placed upon cities by the Oregon revised statutes. Figure 3 describes the City’s debt limits pertaining to property tax-supported debt.



It should be noted that the City’s limited use of debt supported by property taxes is a primary consideration in evaluating the City’s credit strength. The City does not, and should not, strive to utilize its full capacity within the policy limits. It is important that the City retain borrowing capacity to limit overexposure to debt, to maintain sustainable cash flows, and to protect capacity in the event of catastrophic or emergency one-time events.

## City Bond Ratings

The City is assigned a separate bond rating for each individual subset of bonds. The City’s property tax-secured bond ratings were most recently affirmed at Aaa (GO) and Aa1 (LTRBs) in November 2011. The rating agencies are responsible for ongoing surveillance and maintenance of up-to-date rating information. Higher ratings translate into lower costs of borrowing.

Despite the variance in ratings among different subsets of City debt, the City is often referred to as a Aaa-rated City. This refers to the rating on the City’s General Obligation Bonds, which are secured by a dedicated property tax – the strongest security that a government can provide. A municipality’s GO bond rating (or equivalent) is commonly referred to as its “issuer rating”. The issuer rating sets the standard upon which other City ratings are measured and is used for comparison against issuer ratings for other municipalities. The City has maintained a Aaa issuer rating since 1982.

The Moody’s rating scale (highest-to-lowest) is Aaa, Aa1, Aa2, Aa3, A1, A2, A3, Baa1, etc. Municipal ratings are rarely assigned a rating below Baa1. According to the September 9, 2011 Moody’s report titled *2010 US Local Government Medians (Medians Report)*, the median issuer rating for all US cities rated by Moody’s is Aa3. Less than 7% of all US cities rated by Moody’s carry a Aaa issuer rating and the City of Portland is one of two cities in Oregon that is assigned a Aaa rating.

**Table 5: Underlying Ratings for Outstanding Debt**

<b>TYPE OF DEBT</b>	<b>RATING</b>
<b>Tax Supported General Obligation Bonds</b>	Aaa
<b>Full Faith &amp; Credit Obligations</b>	
Limited Tax Revenue Bonds	Aa1
Limited Tax Housing Revenue Bonds	Aa1
Limited Tax Pension Obligation Revenue Bonds	Aa1
Arena Limited Tax Revenue Bonds	Aa1
Limited Tax Improvement Bonds	Aa1
<b>Revenue Bonds</b>	
First Lien Sewer System Revenue Bonds	Aa2/AA
Second Lien Sewer System Revenue Bonds	Aa3/AA
First Lien Water System Revenue Bonds	Aaa
Second Lien Water System Revenue Bonds	Aa1
Hydroelectric Power Revenue Bonds	Baa1/BBB
Gas Tax Revenue Bonds	Aa2
<b>Urban Renewal and Redevelopment Bonds</b>	
Downtown Waterfront	Aa3
South Park Blocks	Aa3
Airport Way	Aa3
Oregon Convention Center	Aa3
Central Eastside	A2
Lents Town Center	A1
North Macadam	A1
Interstate Corridor	A2
River District	A2

# DEBT SECURED BY GENERAL FUND RESOURCES (INCLUDING PROPERTY TAXES)

## About Debt Secured by General Fund Resources

Property taxes are the primary source of revenue collected by the City. The City's permanent rate and general obligation bond levy produced \$200.15 million in property taxes to the City in fiscal year 2010-11. Property tax revenues are used to support a vast array of City programs including public safety, parks, and community development services. Excluding urban renewal bonds, approximately \$662.96 million (21.0%) of the City's total outstanding debt is secured by property taxes. Of this amount, nearly \$400 million is paid by revenue sources other than property taxes. The City issues three types of debt secured by General Fund resources, including property taxes:

<b>General Obligation (GO) Bonds</b>	<i>debt supported by a dedicated voter-approved property tax levy that can only be used to pay those specific bonds.</i>
<b>Limited Tax Revenue Bonds (LTRB)</b>	<i>debt other than GO Bonds that is secured by and paid from General Fund resources including City property taxes. (Also commonly called full faith &amp; credit or FF&amp;C bonds.)</i>
<b>Self-Supporting Limited Tax Revenue Bonds</b>	<i>LTRBs with a legal claim on General Fund resources, but functionally paid from specifically identified non-General Fund resources.</i>

### Fiscal Year 2010-11 Highlights – Debt Secured by General Fund Resources

Bonds Issued: ..... \$25.835 million General Obligation Public Safety Bonds  
 Rating Actions: ..... Affirmed at Aaa (GO Bonds) and Aa1 (LTRBs)  
 Refinancing Activity: ..... None  
 Other Activities: ..... N/A

### Bond Ratings for Debt Secured by General Fund Resources

Unlimited Tax General Obligations: ..... Aaa (Moody's)  
 Limited Tax Revenue Bonds: ..... Aa1 (Moody's)

## Classifications of Debt Secured By General Fund Resources

For comparison to municipal credit benchmarks, debt secured by property taxes is divided into two classifications: net debt and gross debt. For purposes of net debt and gross debt calculations, lines of credit and other short-term borrowing facilities are also included – including lines of credit related to urban renewal areas that will later be converted to long-term debt secured specifically by urban renewal district revenues.

<b>Net Debt</b>	<i>debt secured by and paid directly by General Fund resources, including City property taxes.</i>
<b>Gross Debt</b>	<i>net debt, plus debt secured by General Fund resources, that is paid from dedicated revenues outside of the General Fund.</i>

## Net Debt

Net debt includes General Obligation Bonds and non-self-supporting Limited Tax Revenue Bonds. In practice, some debt identified as non-self-supporting may be partially or fully paid from non-General Fund sources. However, in conformance with conservative management practices, the City may identify such debt as non-self-supporting if the actual repayment revenue stream is perceived to be volatile or at risk. Table 6 lists all individual issues identified as net debt of the City as of June 30, 2011.

**Table 6: Net Debt Outstanding**

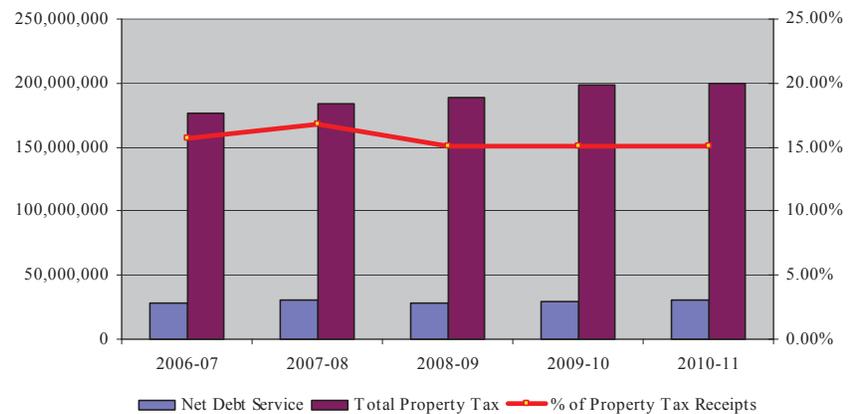
Type	Outstanding 6/30/2011
<b>General Obligation Bonds</b>	
Emergency Facilities Bonds, 2004 Series A	\$10,200,000
Emergency Facilities Bonds, 2008 Series A	14,475,000
Emergency Facilities Refunding Bonds, 2009 Series A	11,745,000
Public Safety Bonds, 2011 Series A	25,835,000
Parks Refunding Bonds, 2010 Series A	16,275,000
<b>Total General Obligation Debt</b>	<b>\$78,530,000</b>
<b>Non-Self-Supporting Limited Tax Bonds:</b>	
Limited Tax Revenue Ref. Bonds, 2003 Series A (FF&C Ref.)	\$855,000
Limited Tax Revenue Ref. Bonds, 2004 Series A (Cty Hall/Comm)	11,120,000
Limited Tax Revenue Bonds, 2007 Series A (EBSP)	12,885,000
Portland International Raceway, Series 2007 (1)	1,350,000
Limited Tax Revenue Bonds, 2009 Series B (CAD & EBSP)	15,265,000
Limited Tax Revenue Ref. Bonds, 2008 Series A (Devel. Services)	13,000,000
Limited Tax Revenue Ref. Bonds, 2010 Series A (Ref 98B, 99B, 02A)	6,410,000
Limited Tax Housing Revenue Bonds, 2005 Series C & D (HOB)	7,890,000
Limited Tax Revenue Bonds, 2007 Series C (Archives)	10,680,000
Limited Tax Pension Obligation Bonds (General Fund Portion) (2)	100,757,678
Limited Tax Housing Rev. Bonds, 2005 Series A & B (Headwaters) (1)	10,930,000
<b>Total Non-Self-Supporting Limited Tax Debt</b>	<b>\$136,667,678</b>
<b>Total Net Debt</b>	<b>\$191,142,678</b>

Notes:

- (1) Debt service has been paid from non-general fund resources, but remain as non-self-supporting until higher coverage is established
- (2) Reflects bonded portion of pension liability only.

Historically, annual net debt payment requirements have been less than 16.8% of total annual City permanent rate and general obligation bond property tax receipts, as reflected in Figure 4.

**Figure 4: Comparison Net Debt Service to Property Tax Receipt**



## Gross Debt

Gross debt includes net debt, plus self-supporting Limited Tax Revenue Bonds. Self-supporting Limited Tax Revenue Bonds are paid from non-General Fund sources, but ultimately have a claim on the General Fund if the self-supporting repayment revenues are insufficient. The City protects the General Fund by using internal actions and management practices to encourage continued receipt of non-General Fund resources for payment of this debt. Table 7 lists all individual issues identified as gross debt of the City as of June 30, 2011.

**Table 7: Gross Debt Outstanding**

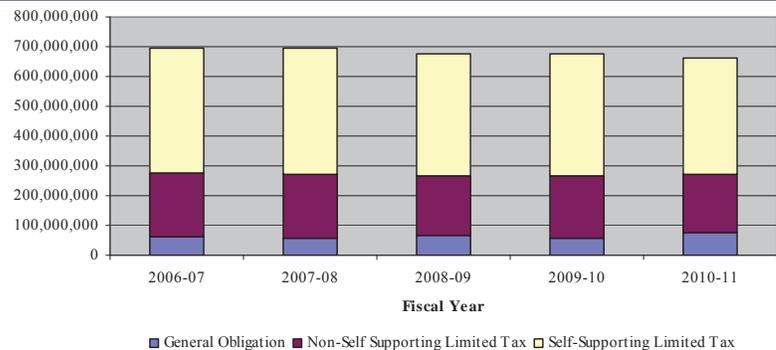
Type	Outstanding 6/30/2011	Expected Source of Payment
<b>Total Net Debt (from previous table)</b>	<b>\$191,142,678</b>	General Fund
<b>Self-Supporting Obligations:</b>		
Limited Tax Revenue Bonds Series 2006 (S. Waterfront)	\$2,158,974	Assessment collections
Limited Tax Revenue Bonds, 2007 Series B (Transit Mall)	10,870,000	Parking meter revenues
Arena Limited Tax Revenue Ref. Bonds, 2005 Series A & B	17,045,000	Arena revenues; user fees, parking revenues; gas tax
Oregon Economic and Community Development Loan (Brookside)	325,085	Sewer revenues
Limited Tax Revenue Bonds, 2001 Series C (PCPA)	1,290,000	Transient Lodging Tax; Vehicle Rental Tax
Limited Tax Revenue Bonds, 2001 Series D (Civic Stadium)	24,695,000	Transient Lodging Tax; Vehicle Rental Tax; Stadium
Limited Tax Revenue Ref. Bonds, 2009 Series A (Streetcar)	19,025,000	Parking system revenue
Limited Tax Pension Obligation Bonds (Non-General Fund Portion) (1)	170,645,668	Non-General fund Bureau revenues
Limited Tax Revenue Bonds, 2001 Series A & B (Convention Center)	90,129,668	Transient Lodging Tax; Vehicle Rental Tax
Limited Tax Improvement Bonds	57,425,000	Property assessments
<b>Total Self-Supporting Obligations</b>	<b>\$393,609,395</b>	
<b>Total Gross Debt</b>	<b>\$584,752,073</b>	

Notes:

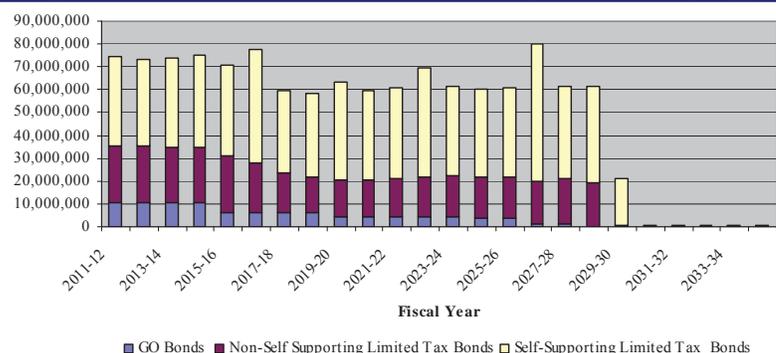
(1) Reflects bonded portion of pension liability only.

Figures 5 and 6 present the total amount of net debt and gross debt outstanding over the past five fiscal years, and the projected annual debt service obligations remaining on currently outstanding net debt and gross debt.

**Figure 5: Historical Gross Bonded Debt Outstanding by Type**



**Figure 6: Gross Annual Debt Service Requirements by Type**

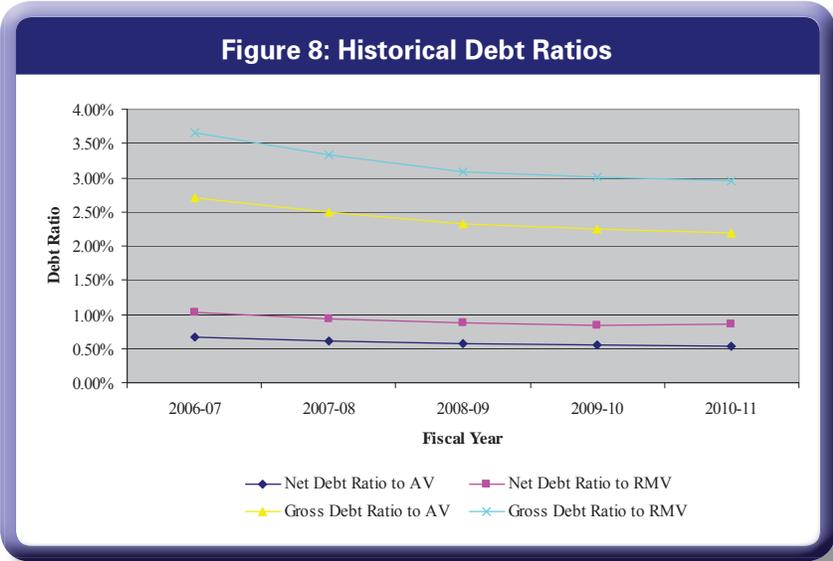
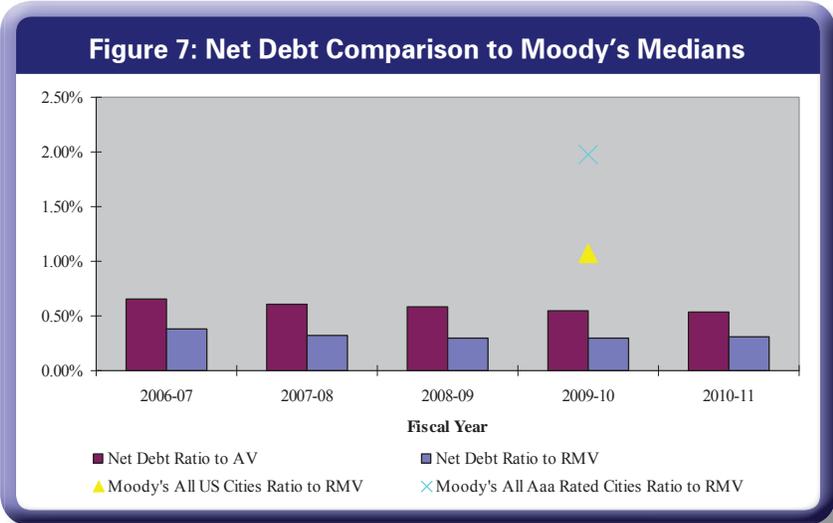


# Historical and Comparative Analysis

The City uses certain indicators and benchmarks to monitor the levels of City debt. These benchmarks are outlined in the *Medians Report*, which compares metrics across US local governments. The City also compares current year data against historical performance. The data provided below is not comprehensive of all points of analysis, but reflects select indicators the City believes are most useful in describing the condition and status of City debt secured by General Fund resources.

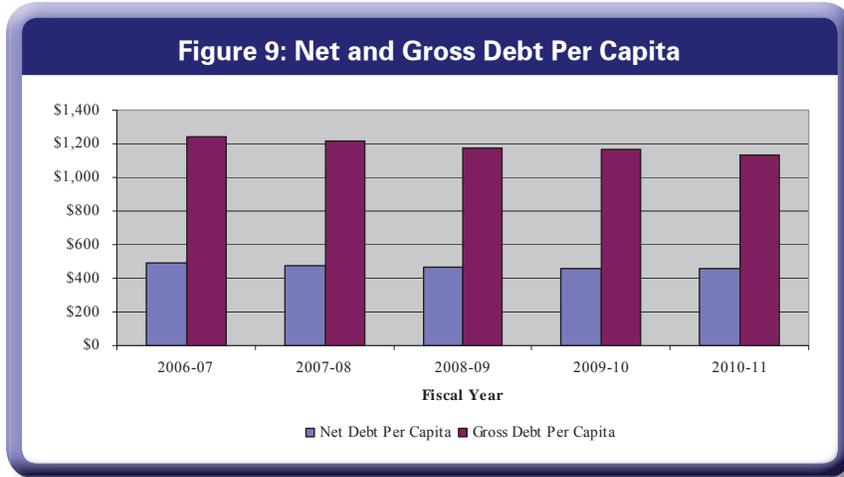
**Debt Ratios**      *indicators comparing debt secured by the General Fund to property taxes.*

The City's debt ratios indicate the level of outstanding debt secured by General Fund resources compared to the real market value of properties within the City (representing the pool from which property taxes to repay the debt are collected). A lower ratio reflects a lesser debt burden. Because the Oregon property tax system collects property taxes based upon assessed value, the City looks at debt ratios based on both real market value and assessed value. Consistent with long-term growth in real market value and assessed value – and despite recent declines in real market value – the City has experienced consistent annual improvement in its debt ratios. According to the *Medians Report*, the median net debt-to real market value ratio is 1.07% for all US cities and 1.98% for all Aaa-rated US cities.



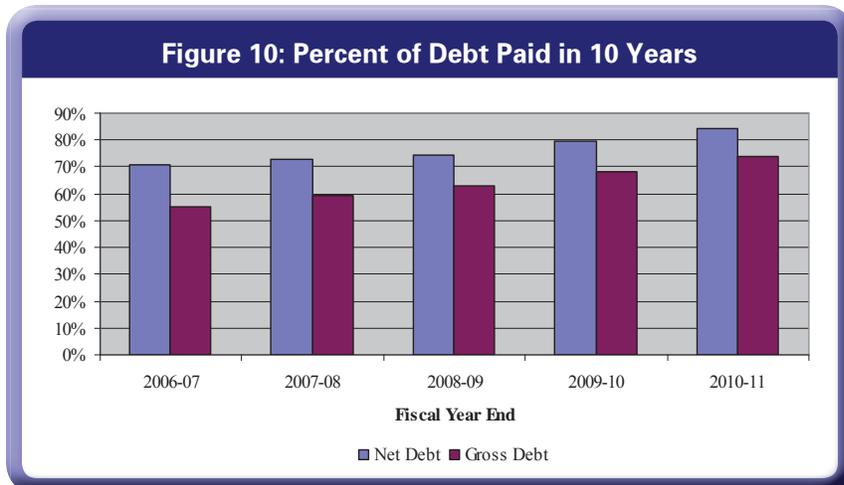
**Debt Per Capita** *the ratio of City debt secured by General Fund resources to City population.*

The debt per capita figure is an indicator of the debt burden allocable to individual residents of the City (assuming each resident is responsible for an equal share of the debt). Net debt per capita reflects the actual debt paid by each City resident, assuming equal allocation. The gross debt per capita reflects the total amount of debt allocable to each City resident if the self-supporting resources that pay the debt were completely eliminated (and all debt secured by General Fund resources was actually paid directly by property taxes). Debt per capita continues to show consistent annual declines.



**Debt Payout** *an indicator of how rapidly outstanding debt is repaid.*

The debt payout indicator reflects how quickly the City expects to repay outstanding property tax-secured debt. A more rapid repayment period reduces risks associated with future loss of revenue and is an indicator of repayment strength. Rapid repayment also allows debt capacity to be released and made available for future capital needs. The City's debt payout ratios have remained very strong over the past five fiscal years with the 10-year payout of gross debt exceeding 55% in all years and increasing to nearly 75% in fiscal year 2010-11.

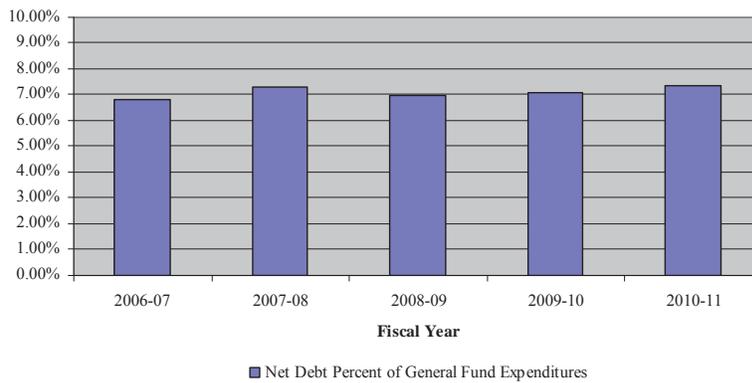


**Debt Service as a Percent of General Fund Expenditures**

*the percentage of General Fund resources that are actually required to meet debt service payments.*

This indicator reflects the level of General Fund responsibility directly related to payment of debt. Excessive reliance on the General Fund to cover outstanding debt obligations can suggest higher default risk and lead to additional stress on other programs that rely upon General Fund resources. The *Medians Report* suggests a median percentage of 8.26% for all cities and a median percentage of 9.17% for all Aaa-rated cities. The City's percentage of net debt service to General Fund expenditures continues to compare favorably to these medians at levels below 7.35%.

**Figure 11: Net Debt as a Percent of General Fund Expenditures**



# REVENUE BONDS

## About Revenue Bonds

The City issues Revenue Bonds – bonds secured by revenues other than property taxes – mostly for the City’s water and sewer systems. These bonds are paid by a specific dedicated revenue stream and have no legal claim on the City’s General Fund or resources that are not specifically identified in bond documents. For example, the City’s Sewer Revenue Bonds are paid solely from fees and revenues associated with the collection and treatment of sewage within the City; the City’s Water Revenue Bonds are paid solely from fees and charges collected by the water system. The City has historically maintained four types of revenue bonds as described below and in this section. The City has also issued hydroelectric revenue bonds, however, that system is separately maintained and hydroelectric system debt is not included in this report.

<b>Sewer System Revenue Bond</b>	<i>debt for sewer and wastewater capital projects, supported by revenues generated within the sewer system.</i>
<b>Water System Revenue Bonds</b>	<i>debt for capital projects of the water system, supported by revenues of the water system.</i>
<b>Gas Tax Revenue Bonds</b>	<i>debt for specifically-eligible transportation projects, supported by fuel taxes and motor vehicle registration fees.</i>
<b>Golf System Revenue Bonds</b>	<i>debt for capital projects related to City-owned golf facilities, supported by revenues generated by City-owned golf facilities.</i>

## SEWER SYSTEM REVENUE BONDS

The Bureau of Environmental Services issues Sewer System Revenue Bonds to provide funding for a significant portion of its capital program. Bonds are secured by a pledge (lien) on the net revenues of the City’s sewer system. Sewer System Revenue Bonds have either a first or second (subordinate) lien on these revenues. The City also has a small amount of loans from the State of Oregon that have a third lien on sewer system net revenues. Over the past five years, outstanding sewer system debt has increased as the City completed the Combined Sewer Overflow (“CSO”) project, commonly referred to as the Big Pipe project. While the rate and scale of bond issuance is expected to decrease, additional Sewer System Revenue Bonds are anticipated over the next five years, with an estimated \$487 million of new sewer revenue bonds expected to be issued through fiscal year 2015-16.

### Fiscal Year 2010-11 Highlights

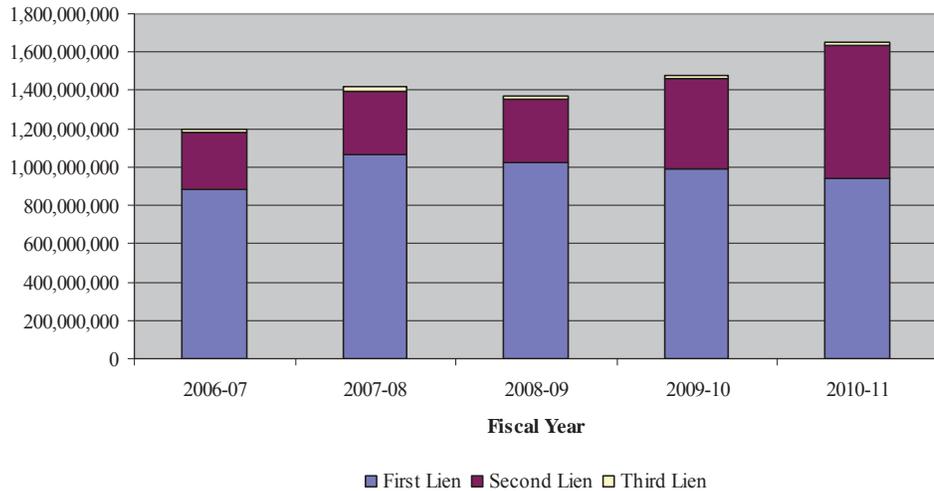
Debt Issued: ..... \$407.85 million Second Lien Sewer System Revenue Bonds  
Rating Actions: ..... Affirmed at Aa2 (First Lien) and Aa3 (Second Lien)  
Refinancing Activity: ..... None  
Other Activities: ..... N/A

### Sewer System Revenue Bond Ratings

First Lien: ..... Aa2 (Moody’s)  
AA (Standard & Poor’s)  
Second Lien: ..... Aa3 (Moody’s)  
AA (Standard & Poor’s)

# Sewer System Revenue Bonds Outstanding

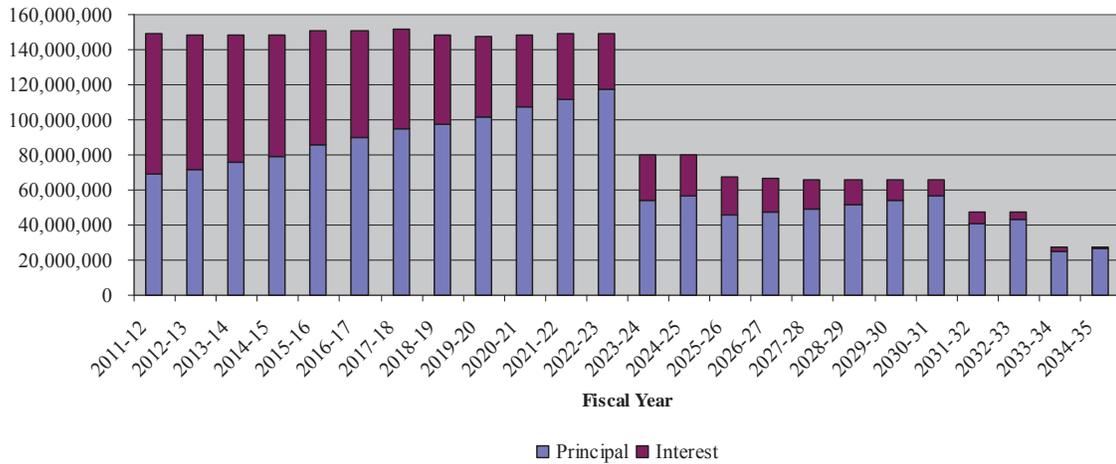
**Figure 12: Five-Year History of Outstanding Sewer System Revenue Bonds**



**Table 8: Outstanding Sewer System Revenue Bonds**

Issue	Issue Date	Final Maturity	Amount Issued	Amount Outstanding
<b>First Lien Bonds:</b>				
2004 Series A	11/30/2004	10/1/2024	\$163,500,000	\$129,900,000
2004 Series B Refunding	11/30/2004	6/1/2017	93,080,000	84,965,000
2005 Series A Refunding	6/16/2005	8/1/2020	144,850,000	144,850,000
2006 Series A	5/25/2006	6/15/2031	177,845,000	157,315,000
2007 Series A Refunding	3/8/2007	6/1/2015	193,510,000	117,370,000
2008 Series A Revenue & Refunding	4/17/2008	6/15/2033	333,015,000	303,435,000
<b>Total First Lien Bonds</b>				<b>\$937,835,000</b>
<b>Second Lien Bonds:</b>				
2003 Series A	4/3/2003	6/1/2023	\$88,370,000	\$35,380,000
2006 Series B	5/25/2006	6/15/2031	87,135,000	77,240,000
2008 Series B Revenue & Refunding	4/17/2008	6/15/2033	195,700,000	192,150,000
2010 Series A	8/19/2010	3/1/2035	407,850,000	390,720,000
<b>Total Second Lien Bonds</b>				<b>\$695,490,000</b>
<b>Third Lien Bonds:</b>				
Sewer SRF Loans	Various	Various	\$20,079,188	\$20,247,156
<b>TOTAL OUTSTANDING</b>				<b>\$1,653,572,156</b>

**Figure 13: Sewer System Annual Debt Service Requirements**

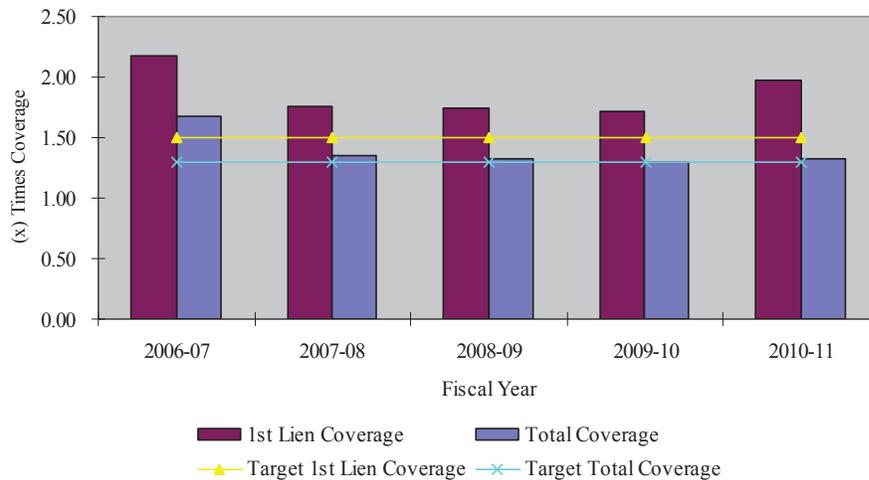


## Security for Sewer System Revenue Bonds

### Revenues of the Sewer System

The Bureau of Environmental Services charges fees to City residents and businesses for sanitary and stormwater collection, transportation and treatment. Sewer rates are set at levels that meet all legal covenants and planning targets to provide sewer system revenues that are sufficient to cover sewer system debt obligations. Figure 14 shows debt service coverage for first and second lien bonds over the past five years. Note that the Bureau of Environmental Services has established a rate stabilization fund that can be used to smooth rate increases while maintaining desired debt service coverage levels.

**Figure 14: Debt Service Coverage Ratios - Sewer System Revenue Bonds**



### Sewer System Debt Service Reserves

Outstanding sewer revenue bonds are also secured by a debt service reserve. All sewer revenue bond debt reserves are currently funded at or above the legal minimums either with cash or through bond insurance (surety).

# WATER SYSTEM REVENUE BONDS

The Water Bureau issues bonds to provide funding for a significant portion of its capital program. Bonds are secured by either a first lien or second lien on the net revenues of the water system. Over the past five years, outstanding water system debt has increased with implementation of the bureau’s capital program to meet the requirements of the federal Long-term 2 Enhanced Surface Water Treatment (“LT2”) Rule, federal Endangered Species Act requirements, system vulnerability needs, and aging infrastructure needs. Revenue bond issuance is expected to continue to function as a part of the Water Bureau’s ongoing capital improvement plan over the next five years, with an estimated \$553 million of new water revenue bonds expected to be issued through fiscal year 2015-16.

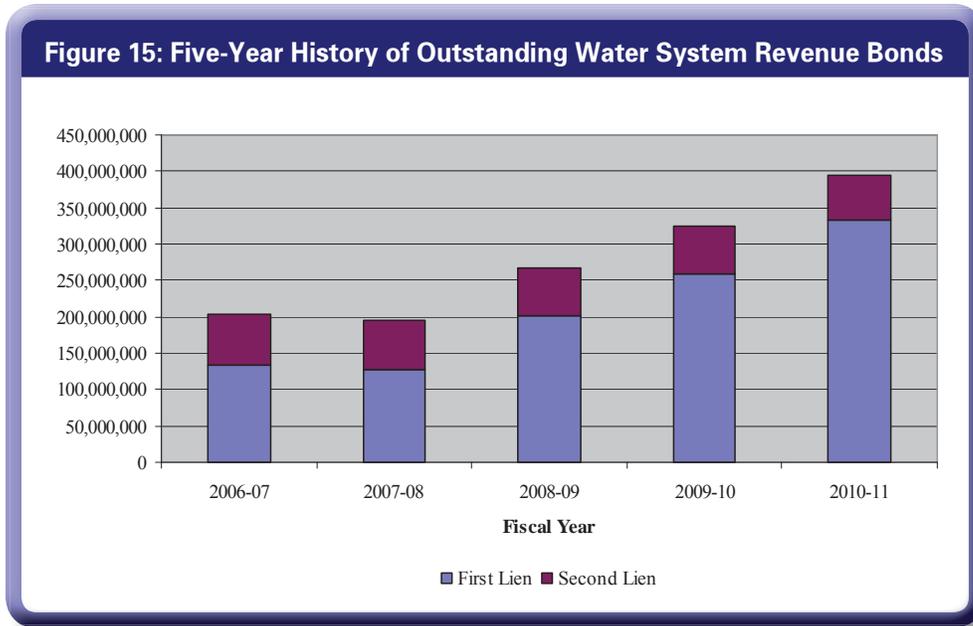
## Fiscal Year 2010-11 Highlights

Debt Issued: ..... \$82.8 million First Lien Water System Revenue Bonds  
 Rating Actions: ..... Affirmed at Aaa (First Lien) and Aa1 (Second Lien)  
 Refinancing Activity: ..... None  
 Other Activities: ..... N/A

## Water System Revenue Bond Ratings

First Lien: ..... Aaa (Moody’s)  
 Second Lien: ..... Aa1 (Moody’s)

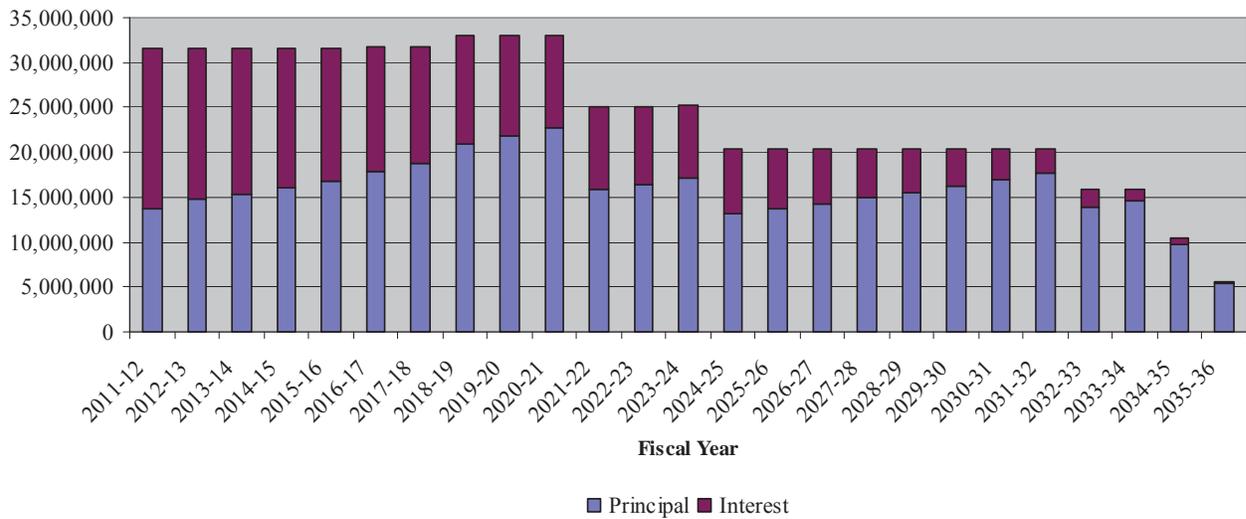
## Water System Revenue Bonds Outstanding



**Table 9: Outstanding Water System Revenue Bonds**

Issue	Issue Date	Final Maturity	Amount Issued	Amount Outstanding
<b>First Lien Bonds:</b>				
2004 Series A	5/6/2004	10/1/2015	\$29,900,000	\$14,840,000
2004 Series B	5/6/2004	10/1/2023	61,900,000	45,990,000
2006 Series B Refunding	9/21/2006	10/1/2020	44,000,000	40,195,000
2008 Series A	8/7/2008	11/1/2033	79,680,000	76,145,000
2010 Series A	2/11/2010	5/1/2035	73,440,000	72,355,000
2011 Series A	3/22/2011	5/1/2036	82,835,000	82,835,000
<b>Total First Lien Bonds</b>				<b>\$332,360,000</b>
<b>Second Lien Bonds:</b>				
2006 Series A (2nd Lien)	9/21/2006	10/1/2031	\$68,970,000	\$62,420,000
<b>Total Second Lien Bonds</b>				<b>\$62,420,000</b>
<b>TOTAL OUTSTANDING</b>				<b>\$394,780,000</b>

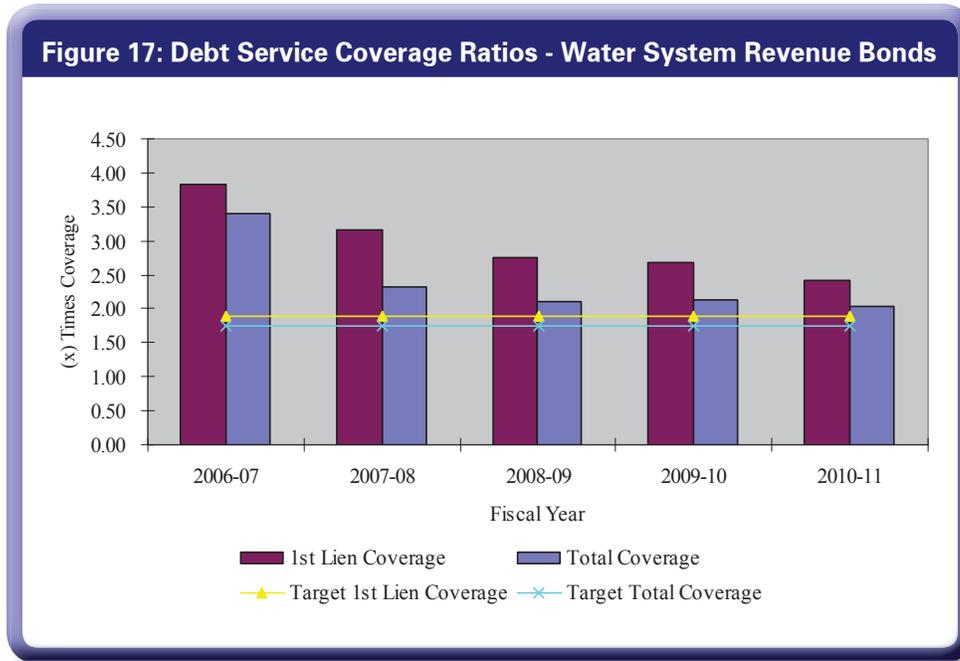
**Figure 16: Water System Annual Debt Service Requirements**



# Security for Water System Revenue Bonds

## Revenues of the Water System

The Water Bureau charges fees to City residents and businesses for treatment and transmission of water. The Water Bureau's financial plans set water rates at levels that meet all legal covenants and planning targets to provide water system revenues that are sufficient to cover water system debt obligations. Figure 17 shows debt service coverage for first and second lien bonds over the past five years. Note that for second lien bonds, the Water Bureau has established a rate stabilization fund that can be used to smooth rate increases while maintaining desired debt service coverage levels.



## Water System Debt Service Reserves

Outstanding water revenue bonds are also secured by a debt service reserve. All water revenue bond debt reserves are currently funded at or above the legal minimums either with cash or through bond insurance (surety).

# GAS TAX REVENUE BONDS

The Bureau of Transportation occasionally issues bonds and lines of credit to provide funding for minor portions of its capital program. Gas Tax Revenue Bonds are secured by a pledge of the City’s gas tax revenues, as described under the security section below. All payments of Gas Tax Revenue Bonds have been made as scheduled from gas tax revenues. In November 2011 (after the end of fiscal year 2010-11, but prior to publication of this report), the City issued \$15,400,000 in Gas Tax Revenue Bonds. Impacts of this bond issue will be reflected in the fiscal year 2011-12 Annual Debt Report.

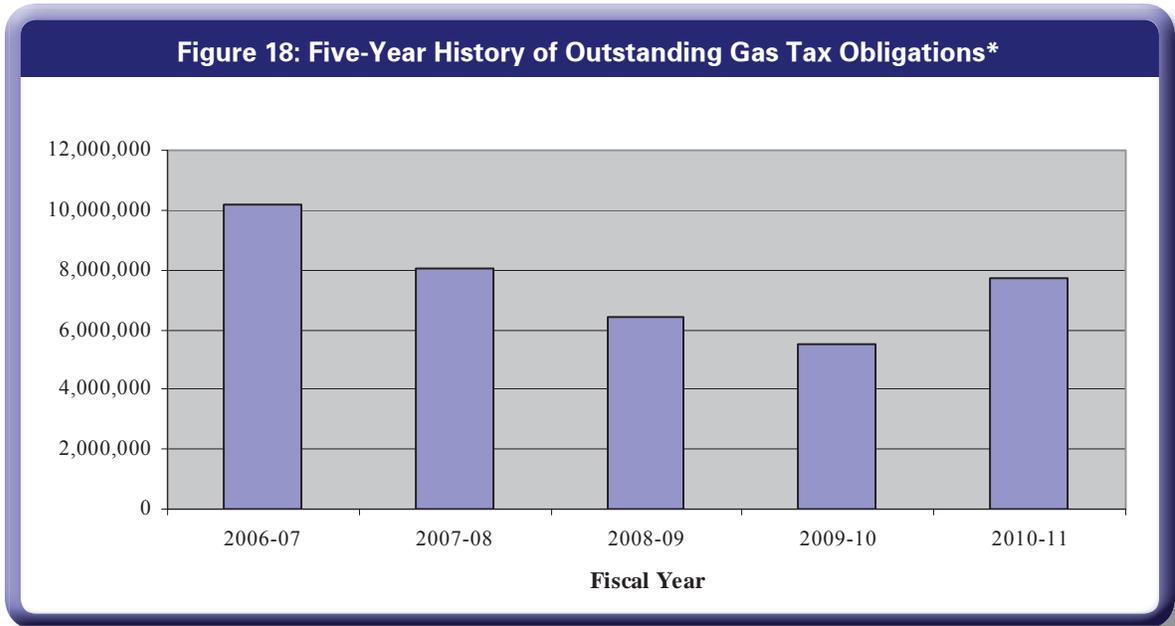
## Fiscal Year 2010-11 Highlights

Debt Issued: ..... \$7.5 million Credit Facility (Subordinate Line of Credit)  
Rating Actions: ..... None in FY2010-11. Rating affirmed at Aa2 in November 2011  
Refinancing Activity: ..... None  
Other Activities: ..... N/A

## Gas Tax Revenue Bond Rating

Aa2 (Moody’s)

## Gas Tax Revenue Bonds Outstanding



**Table 10: Outstanding Gas Tax Bonds**

Issue	Issue Date	Final Maturity	Amount Issued	Amount Outstanding
<b>First Lien:</b>				
Gas Tax Revenue Bonds, 1998 Series A	6/1/1998	6/1/2018	\$3,070,000	\$1,400,000
Gas Tax Revenue Refunding Bonds, 2005 Series A	3/17/2005	6/1/2016	\$4,400,000	2,315,000
Total First Lien Bonds				\$3,715,000
<b>Second Lien:</b>				
2009 Credit Facility	6/1/2009	6/1/2014	\$1,540,000	\$940,000
2010 Credit Facility	10/8/2010	10/8/2015	\$7,500,000	\$3,075,000
Total Second Lien				\$4,015,000
<b>TOTAL OUTSTANDING</b>				<b>\$7,730,000</b>

## Security for Gas Tax Revenue Bonds

### Gas Tax Revenues

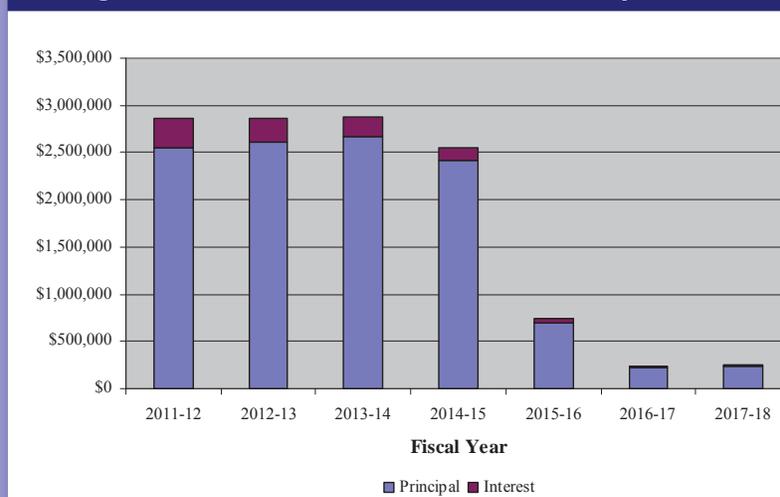
Gas tax revenues include taxes and fees charged for motor fuel purchases and vehicle registration within the City. The Bureau of Transportation is responsible for collection of gas tax revenues from the State and County. Certain Limited Tax Revenue Bonds are also paid from (though not legally secured by) gas tax revenues – these bonds are included in the category of self-supporting debt secured by property taxes.

Debt service coverage in fiscal year 2010-11 was 27.4X for all debt paid by gas tax revenues, including applicable self-supporting revenue bonds.

### Gas Tax Debt Service Reserves

Outstanding gas tax bonds are also secured by a debt service reserve which may be funded with cash or through bond insurance (surety).

**Figure 19: Gas Tax Annual Debt Service Requirements**



# GOLF SYSTEM REVENUE BONDS

Portland Parks and Recreation owns and manages five public golf courses. The City has one outstanding series of bonds, issued to provide funding for golf course renovation and maintenance facilities. Golf System Revenue Bonds are secured by a pledge of certain net revenues generated by the City's golf facilities. In November 2011 (subsequent to the end of fiscal year 2010-11), the City paid off the outstanding balance on the outstanding Golf System Revenue Bonds prior to maturity.

## Fiscal Year 2010-11 Highlights

Debt Issued: ..... None

Rating Actions: ..... None

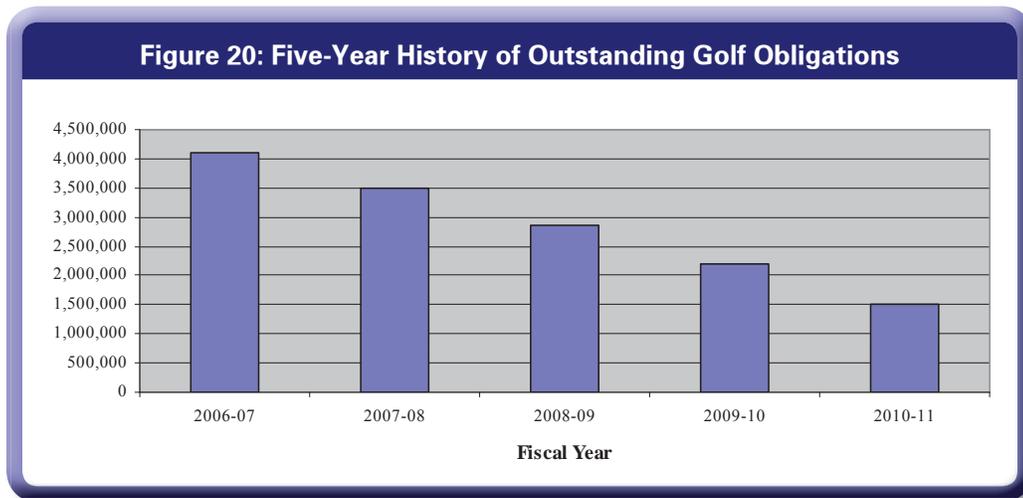
Refinancing Activity: ..... None

Other Activities: ..... None in fiscal year 2010-11, however all outstanding Golf System Revenue Bonds were paid prior to maturity in November 2011.

## Golf System Revenue Bond Rating

None – the City's Golf System Revenue Bonds are held by a commercial bank and are not rated.

## Golf System Revenue Bonds Outstanding



## Security for Golf System Revenue Bonds

### Revenues of the Golf System

Portland Parks and Recreation collects a portion of revenues generated from operation of the City's five golf course facilities. Golf system revenues have remained sufficient to pay annual debt service on outstanding Golf Revenue Bonds. Over the past 5 years, golf revenues have been sufficient to cover debt secured by golf revenues with a coverage factor of 1.26X or greater. Coverage in fiscal year 2010-11 was 1.26X for debt secured by golf system revenues.

### Golf System Debt Service Reserves

Outstanding Golf Revenue Bonds are also secured by a cash-funded debt service reserve.



# URBAN RENEWAL AND REDEVELOPMENT BONDS

## About Urban Renewal and Redevelopment Bonds

The City has eleven urban renewal areas for which it issues debt. Three of these districts, Airport Way, Downtown Waterfront, and South Park Blocks, are no longer actively issuing new debt, having either reached the maximum indebtedness limit or the last date to issue bonded indebtedness. One district, Willamette Industrial, has not yet incurred long-term or interim debt.

Urban renewal debt is repaid from property taxes generated on the increase in property value from the time the urban renewal area is formed. The increase in property value above this base amount is referred to as the incremental assessed value.

**Urban Renewal and Redevelopment Bonds**

*long-term bonds issued for projects in an urban renewal area, supported by a portion of property taxes allocable to that urban renewal area.*

## Outstanding Urban Renewal Debt

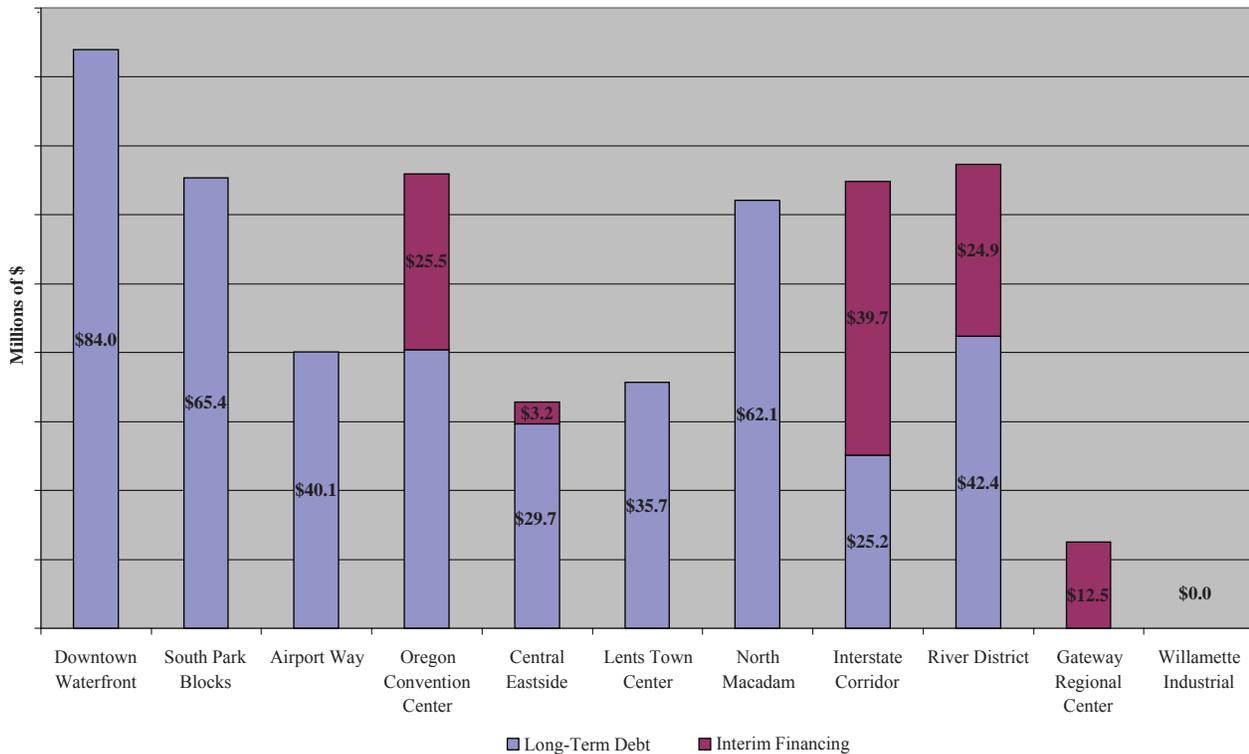
### Short-Term (Interim) Urban Renewal Debt

The City uses interim borrowings (lines of credit) to initially fund urban renewal projects. While paid from tax increment revenues and proceeds of long term urban renewal and redevelopment bonds, urban renewal lines of credit also are secured by the City's full faith and credit and are therefore included in calculations of debt secured by General Fund resources. The City borrows on lines of credit established for most urban renewal areas until the outstanding balance is large enough to cost-effectively repay the line of credit from proceeds of long-term bonds secured solely by tax increment revenues. In fiscal year 2010-11, new draws on the combined urban renewal lines of credit were made in the amount of \$29 million. As of June 30, 2011, the total outstanding urban renewal line of credit balance was \$105.8 million. The City converted line of credit balances to long-term bonds for the North Macadam Urban Renewal Area (\$62.9 million) and the Central Eastside Urban Renewal Area (\$32.9 million). The City anticipates converting balances on lines of credit for the Interstate Corridor and River District Urban Renewal Areas to long-term bonds in fiscal year 2011-12.

### Long-Term Urban Renewal Debt

Total outstanding long-term debt for urban renewal areas as of June 30, 2011, was \$425,050,000. At fiscal year-end, nine urban renewal districts had outstanding long-term debt as shown in Figure 21. Long-term urban renewal debt is secured by and paid solely from tax increment revenues generated by an urban renewal area.

**Figure 21: Interim and Long-Term Urban Renewal Debt Outstanding as of June 30, 2011**



**Du Jour Borrowing**

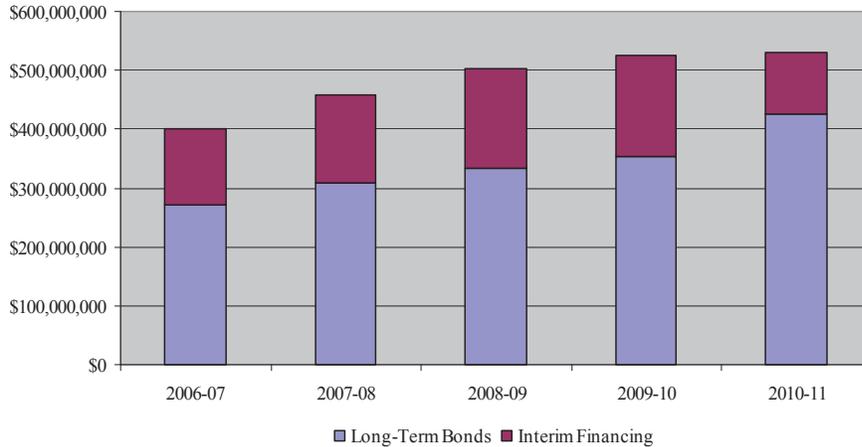
*a one-day borrowing that makes tax increment collections legally available to be spent on projects in an urban renewal area without issuance of long-term debt.*

In addition to interim and long-term urban renewal debt, the City uses du jour borrowings to provide eligible funds to urban renewal districts. These borrowings convert available tax increment collections to useable cash as allowed by the Oregon Revised Statutes and effectively provide a pay-as-you-go option for funding urban renewal projects. Du jour borrowings are outstanding for a single day and therefore do not show up on the outstanding debt tables. Because of the very short maturity, du jour borrowings can be completed at an extremely low cost. Du jour borrowing is counted against the maximum indebtedness limitation for an urban renewal district.

**Outstanding Urban Renewal Debt Summary**

At the end of fiscal year 2010-11 the combined amount of outstanding interim and long-term urban renewal debt was \$531 million. Since fiscal year 2006-07, outstanding urban renewal debt has increased approximately 32%. Outstanding interim debt, which is secured by both the City’s general fund and tax increment revenues, was significantly reduced in fiscal year 2010-11 as the City successfully converted a portion of the line of credit balance to long-term bonds secured only by tax increment revenues.

**Figure 22: Total Urban Renewal Debt Outstanding as of June 30, 2011**



## Limitations on Urban Renewal Areas

### Limitations on Total Size of Urban Renewal Areas

Chapter 457 of the Oregon Revised Statutes places limits upon the amount of a City’s total acreage and assessed value that can be included within an urban renewal area. The total assessed value of properties within urban renewal areas, determined at the time of formation, cannot exceed 15% of total assessed value in the City. Also, the total combined acreage within urban renewal areas cannot exceed 15% of total area within the City. Table 11 indicates the City’s compliance within these statutory limitations as of June 30, 2011.

**Table 11: Urban Renewal Area Size Capacity**

	Acreage	Assessed Value
City of Portland (Total)	92,773	\$42,375,411,465
Urban Renewal Areas	12,335	\$4,260,466,640
Maximum Allowed	15.0%	15.0%
% Used	13.3%	10.1%
Capacity Remaining	1,581	\$2,095,845,080

### Maximum Indebtedness Limitations for Urban Renewal Areas

The City may issue debt up to a maximum amount established in the plan of each urban renewal area. This amount is referred to as an urban renewal area’s maximum indebtedness. Table 12 shows the maximum indebtedness limitation for each of the City’s urban renewal areas and the remaining capacity available to be borrowed within that limitation as of June 30, 2011.

**Table 12: Remaining Borrowing Capacity for Urban Renewal Areas (as of June 30, 2011)**

<u>Urban Renewal Area</u>	<u>Final Date to Issue Debt</u>	<u>Maximum Indebtedness</u>	<u>Long-Term Bonds Issued*</u>	<u>Du Jour Borrowing</u>	<u>Outstanding Line of Credit Balances</u>	<u>Remaining Borrowing Capacity</u>
Downtown Waterfront	Expired	\$165,000,000	\$96,685,000	\$68,315,000	\$0	\$0
South Park Blocks	Expired	143,619,000	77,810,000	34,225,000	0	31,584,000**
Airport Way	Expired	72,638,268	53,000,000	19,638,268	0	0
Oregon Convention Center	June 2013	167,511,000	49,380,000	43,870,000	25,496,155	48,764,845
Central Eastside	August 2018	104,979,000	32,920,340	42,675,000	3,184,000	26,199,660
Lents Town Center	June 2020	245,000,000	36,890,000	56,515,000	0	151,595,000
North Macadam	June 2020	288,562,000	64,925,000	30,875,000	0	192,762,000
Interstate Corridor	June 2021	335,000,000	35,700,000	41,930,000	39,721,223	217,648,777
River District	June 2021	489,500,000	61,940,000	123,070,000	24,899,718	279,590,282
Gateway	June 2022	164,240,000	-	15,135,000	12,545,073	136,559,927
Willamette Industrial	December 2024	200,000,000	-	2,845,000	0	197,155,000
<b>Total</b>		<b>\$2,376,049,268</b>	<b>\$509,250,340</b>	<b>\$479,093,268</b>	<b>\$105,846,169</b>	<b>\$1,250,275,491</b>

\* Includes interim financing counting against maximum indebtedness that was subsequently converted to long-term debt.

\*\* Cannot be accessed via issuance of long-term or interim debt due to expiration of final date to issue debt. Not included in total remaining borrowing capacity amount.

## Fiscal Year 2010-11 Highlights

Fiscal year 2010-11 was an active year for urban renewal financing, with four closed urban renewal bond issues, plus two bond issues that were priced in fiscal year 2010-11, but closed in fiscal year 2011-12.

### New Issuance

The City issued its first long-term bonds for the North Macadam and Central Eastside urban renewal areas in the amounts of \$64,925,000 and \$29,690,000, respectively.

### Bond Refinancings

The City issued or priced bonds to refinance outstanding bonds issued for the Downtown Waterfront, Oregon Convention Center and South Park Blocks urban renewal areas. On a combined (net present value) basis, the refundings completed in fiscal year 2010-11 reduced the City's total debt service payments by approximately \$1.14 million over the next three years.

**Table 13: Results of Urban Renewal Bond Refinancings\***

<u>Refunded Series</u>	<u>Refunded Bond Principal</u>	<u>New Bond Principal</u>	<u>Total Savings</u>	<u>NPV Savings (\$)</u>	<u>NPV Savings (%)</u>
Oregon Convention Center Urban Renewal and Redevelopment Bonds, 2000 Series B	\$7,520,000	\$7,540,000	\$917,335	\$587,633	7.79%
South Park Blocks Urban Renewal and Redevelopment Bonds, 2000 Series B	\$2,570,000	\$2,585,000	\$224,160	\$125,379	4.85%

\* The City also priced refundings of the tax exempt Oregon Convention Center Urban Renewal and Redevelopment Bonds, 2000 Series A and Downtown Waterfront Urban Renewal and Redevelopment Bonds, 2000 Series A in June; however, these refunding issues closed in Fiscal Year 2011-12 and are not included in this table. Total debt service savings from these two refunding exceeded \$12.2 million.

### Rating Actions

Four urban renewal credits were rated by Moody's in fiscal year 2010-11. The North Macadam bonds were rated A1 and the Central Eastside bonds were rated A2. The tax-exempt refunding bonds issued for the Oregon Convention Center and Downtown Waterfront urban renewal areas were rated Aa3.

## Option 3 Urban Renewal Districts

### Option 3 District

*a specific type of urban renewal district established by statutory changes in 1997 that collect a fixed dollar amount of property tax revenues from the incremental assessed value of the district, plus an allocated portion of a citywide special levy.*

### Overview

The City has four Option 3 urban renewal areas: Airport Way, Downtown Waterfront, Oregon Convention Center, and South Park Blocks. Of these, the Oregon Convention Center is the only remaining Option 3 district for which long-term debt remains to be issued. The final issue of Oregon Convention Center urban renewal area debt is expected to occur in fiscal year 2012-13 to utilize the district's remaining maximum indebtedness.

### Tax Collection

Option 3 districts receive tax increment revenues through a combination of fixed taxes on the incremental assessed value of the urban renewal area and an allocation of the urban renewal special levy. The incremental assessed value needed to generate the fixed urban renewal taxes has historically been less than the full incremental assessed value. Any incremental value not needed is released to the overlapping taxing jurisdictions, as shown in Table 14.

**Table 14: Summary of Option 3 District Assessed Value**

Urban Renewal Area	Frozen Base	Incremental Assessed Value	Incremental AV Used	Taxes on Incremental AV*	Incremental AV Released
Airport Way	\$129,701,177	\$1,077,899,700	\$122,250,953	\$2,540,000	\$955,648,747
Downtown Waterfront	55,674,313	863,116,692	359,817,991	7,710,000	503,298,701
Oregon Convention Center	248,951,143	822,947,836	267,217,862	5,760,000	555,729,974
South Park Blocks	376,066,574	858,446,906	264,146,541	5,640,000	594,300,365

\*Before Measure 5 compression

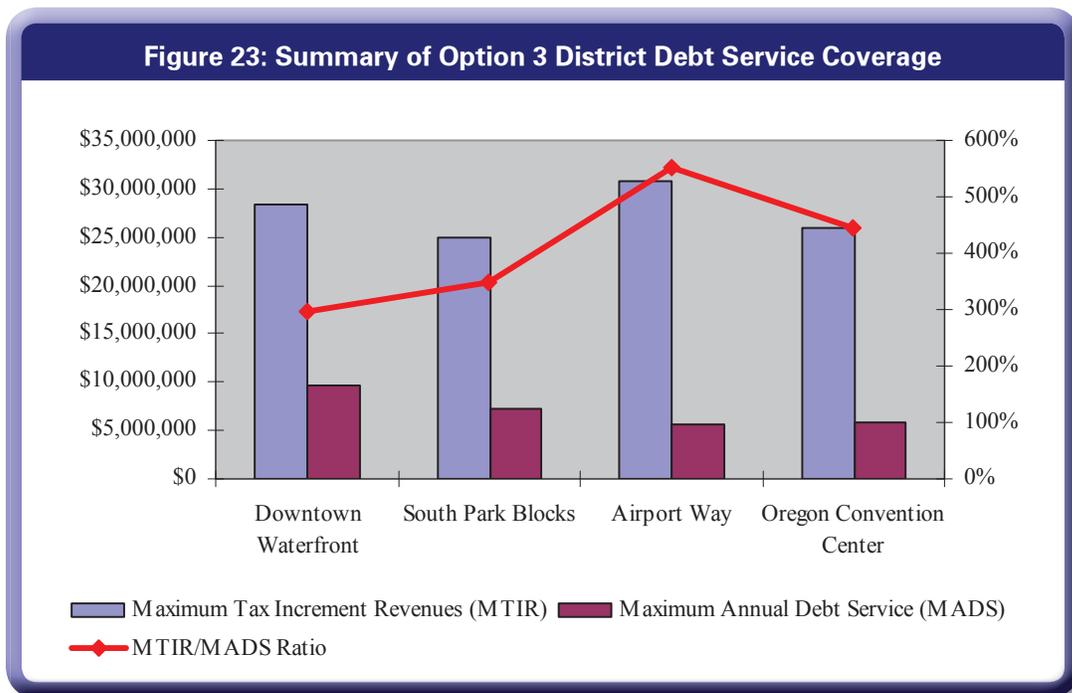
Per City Council direction and in accordance with the debt service requirements of each urban renewal area, a special levy is allocated amongst each of the four urban renewal areas in a combined amount planned not to exceed \$15 million. Availability of the special levy has historically resulted in higher bond ratings for Option 3 areas than for other types of urban renewal areas.

As noted earlier, the City issued refunding bonds for three of its Option 3 urban renewal areas in fiscal year 2010-11. A key objective of the refunding was to capture allocable special levy capacity as part of a larger strategy to access the remaining maximum indebtedness in the Oregon Convention Center Urban Renewal Area. Lower debt service from the refundings will reduce the amount of special levy needed to pay existing debt service; hence, these resources can be redirected toward paying debt service on future Oregon Convention Center urban renewal bonds.

### Security

The City's planning standard for Option 3 districts is for the maximum tax increment revenues to provide at least 150% of the maximum annual debt service. This coverage standard recognizes the strength of the urban renewal special levy which is currently imposed in an amount significantly below statutorily authorized levels. The maximum tax increment revenues were established for each urban renewal area with the passage of Measure 50, and since that time grow at the same rate as the incremental assessed value of the district. In fiscal year 2010-11, the maximum tax increment revenues significantly exceeded the maximum annual debt service, providing a minimum of 2.78X coverage of maximum annual debt service (Downtown Waterfront) and a maximum of 5.52X coverage (Airport Way).

Outstanding urban renewal bonds may also be secured by a debt service reserve. Certain outstanding long-term bonds issued for the Downtown Waterfront, Oregon Convention Center and South Park Blocks do not contain debt service reserves due to favorable debt service coverage and market conditions at the time those bonds were issued.



## Standard and Reduced Rate Plan Districts

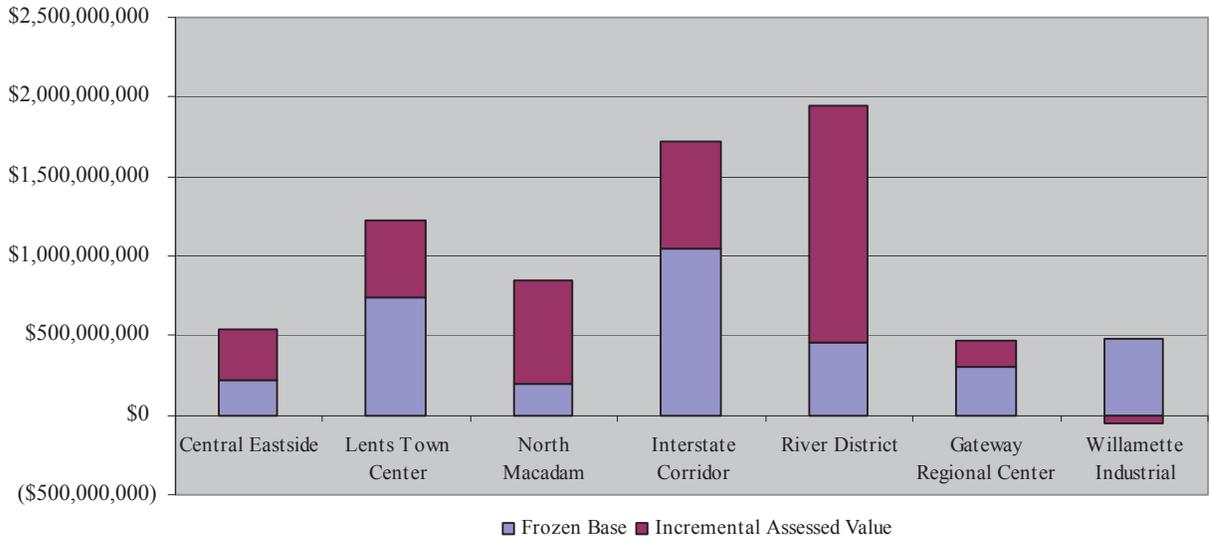
### Overview

The City’s newer urban renewal areas are comprised of standard rate plans and reduced rate plans. The primary difference between these plans are the tax rate used to calculate the tax increment revenues. For a standard rate plan, the tax rate consists of all permanent rates, local option levies, the Fire and Police Disability and Retirement (FPD&R) levy, and bond levies of taxing jurisdictions that overlap the urban renewal area. Reduced rate plans only get the benefit of the permanent rates and the FPD&R levy. The City has five standard rate plans: Gateway Regional Center, Interstate Corridor, Lents Town Center, North Macadam, and River District. Long term debt is outstanding for all of these districts, except Gateway. The City has two reduced rate plans, Central Eastside and Willamette Industrial, with long-term bonds outstanding for only Central Eastside. None of these districts has reached its maximum indebtedness limitation.

### Tax Collections

All of the City’s non-Option 3 urban renewal districts receive tax increment revenues on the full value of the incremental assessed value, except for River District. In 2009, state legislation required River District and districts formed on or after January 1, 2010, to share revenues generated on the incremental assessed value after reaching certain milestones. Fiscal year 2010-11 marks the first year where sharing was required for the River District.

**Figure 24: Summary of Standard/Reduced Plan District Incremental Assessed Value**

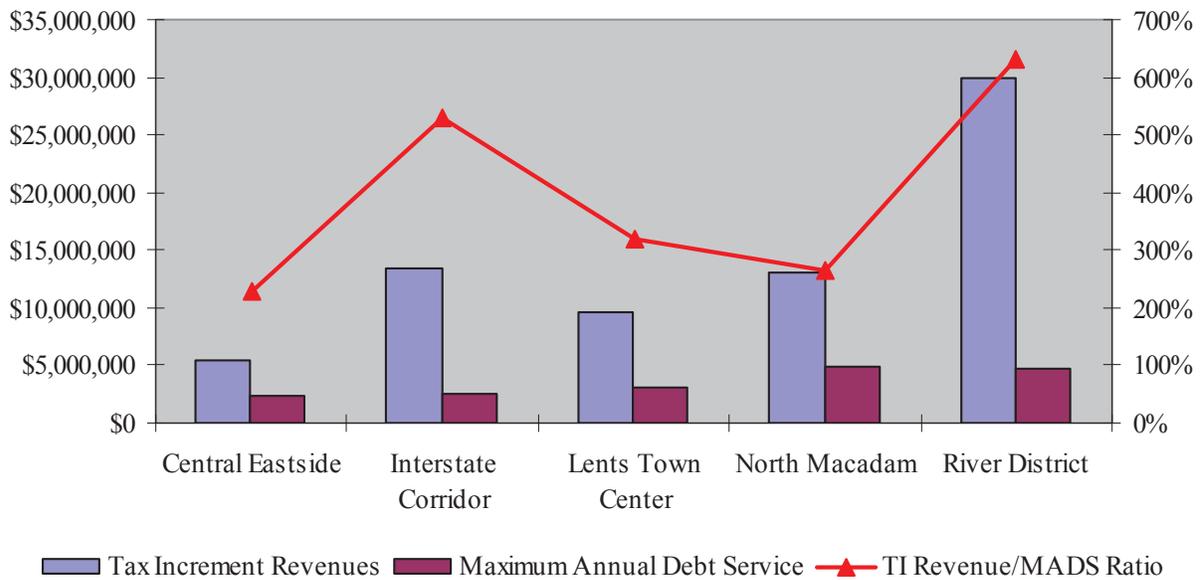


**Security**

The City’s planning standard for all non-Option 3 districts is for tax increment revenues to be at least 200% of the maximum annual debt service. The higher coverage target reflects the passive nature of the tax increment revenue stream. The City cannot control tax rates, growth in incremental assessed value, Measure 5 compression, and other factors that affect revenue collections. Higher debt service coverage helps mitigate the risk of lower collections resulting from unanticipated impacts of any of these factors.

The City maintains debt service reserves for all bonds issued for standard and reduced rate plans.

**Figure 25: Summary of Standard/Reduced Plan District Debt Service Coverage**



# SUMMARY OF URBAN RENEWAL DISTRICTS

## Downtown Waterfront Urban Renewal District Bonds

### District Summary

Year of URA Formation: .....1974  
 District Type:.....Option 3  
 Final Year to Issue Debt: .....2008 (Expired)  
 Remaining Maximum Indebtedness: .....None  
 District Area:.....233 acres  
 Frozen AV Base:.....\$55,674,313  
 FY2010-11 District AV: .....\$918,791,011

### Fiscal Year 2010-11 Highlights

Debt Issued: .....None  
 Rating Actions: .....None  
 Refinancing Activity: .....None  
 Other Activities: .....None

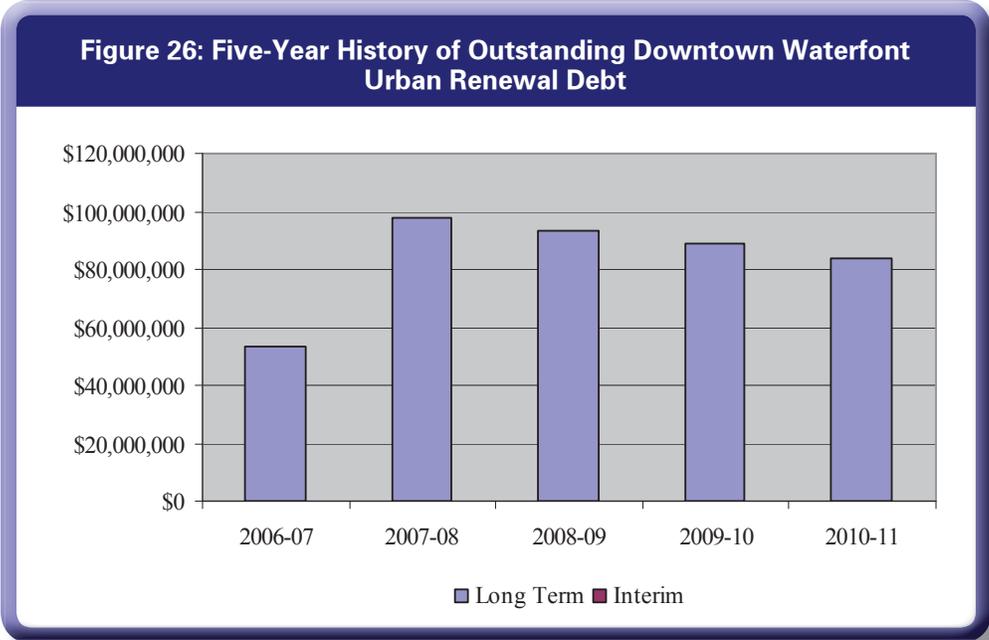
### Bond Rating

Aa3 (Moody's)

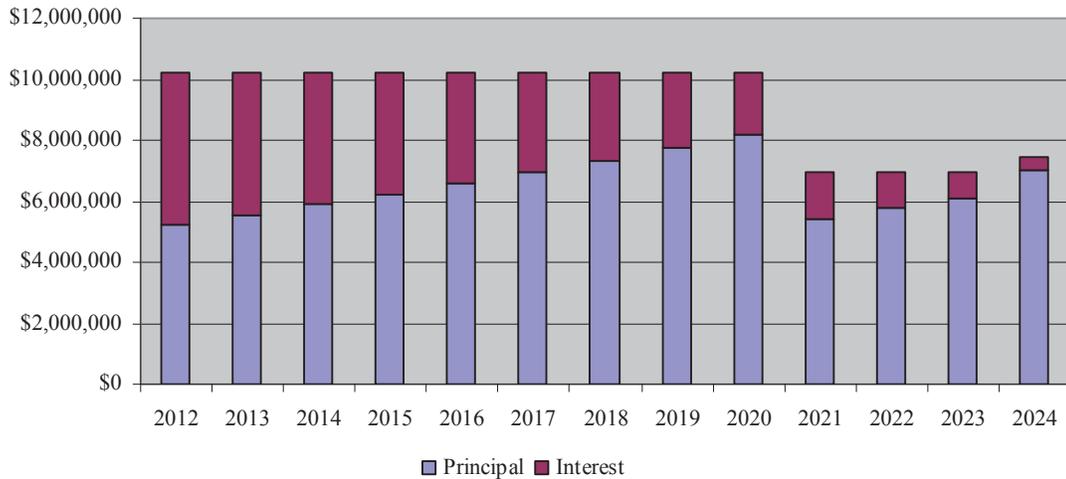
### Debt Outstanding

Interim:.....None  
 Long-Term Bonds: .....\$84,020,000

Issue	Issue Date	Final Maturity	Amount Issued	Amount Outstanding
2000 Series A	10/15/2000	6/15/2020	\$33,060,000	\$33,060,000
2000 Series B	10/15/2000	6/15/2013	\$24,970,000	\$6,970,000
2008 Series A	4/22/2008	6/15/2024	\$50,165,000	\$43,990,000
Total			\$108,195,000	\$84,020,000



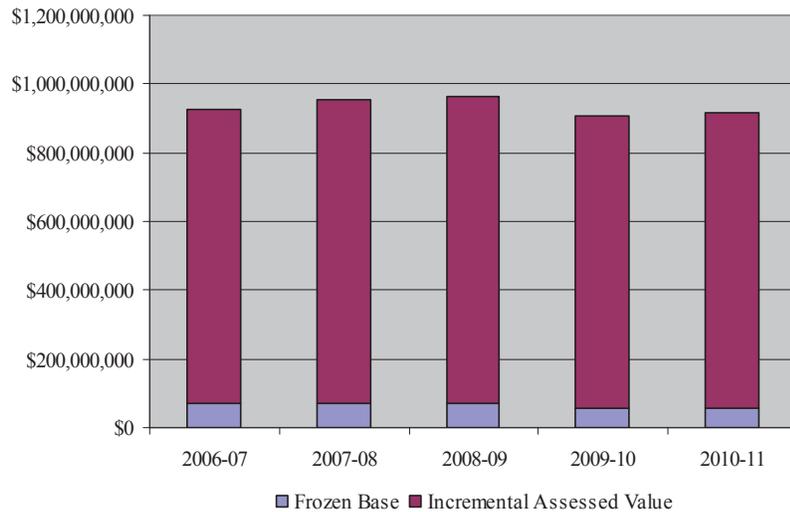
**Figure 27: Total Annual Debt Service Requirements - Downtown Waterfront Urban Renewal Bonds**



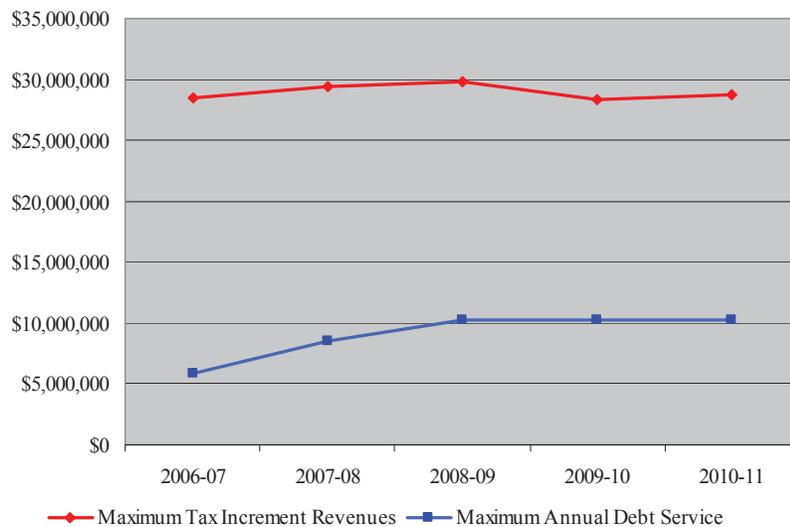
**Figure 28: Incremental Assessed Value - Downtown Waterfront Urban Renewal**

**Security**

Downtown Waterfront has reached its maximum indebtedness limitation and no additional tax increment bonds may be issued. Figures 28 and 29 show the growth in incremental assessed value over the past five years and the maximum tax increment revenues in relation to maximum annual debt service. Note that a plan amendment took effect in fiscal year 2009-10, which reduced the size and assessed value of the district.

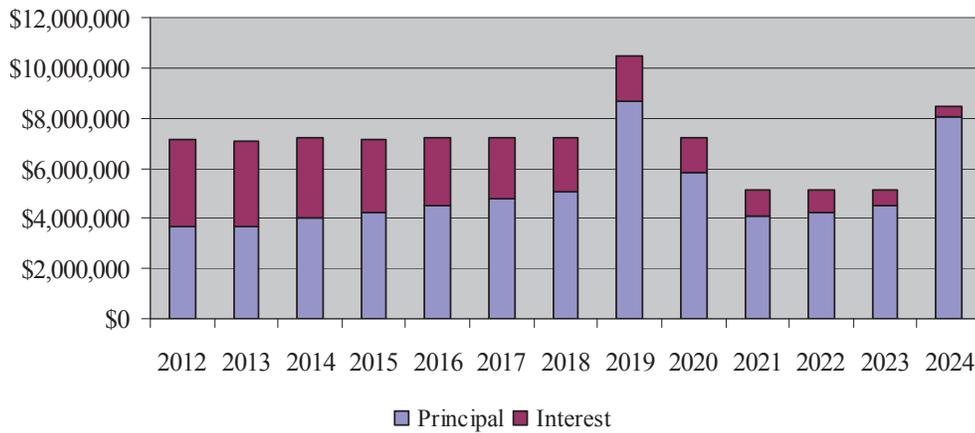


**Figure 29: Revenue to Debt Service Comparison - Downtown Waterfront Urban Renewal**





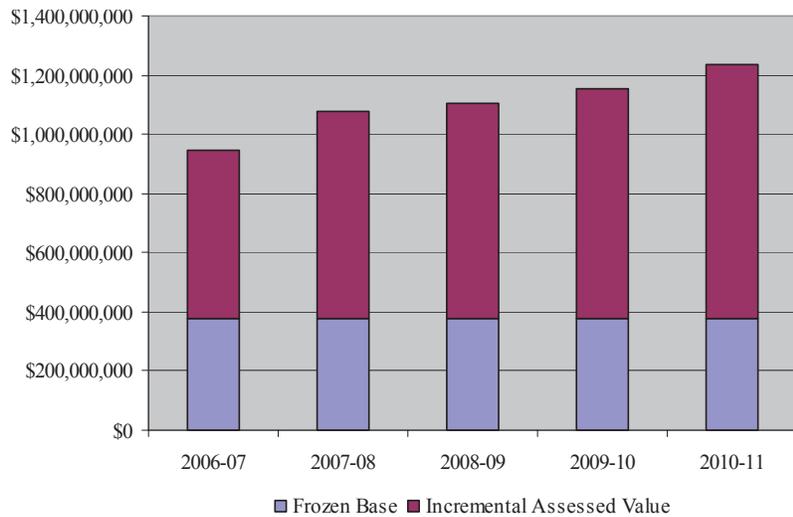
**Figure 31: Total Annual Debt Service Requirements - South Park Blocks Urban Renewal Bonds**



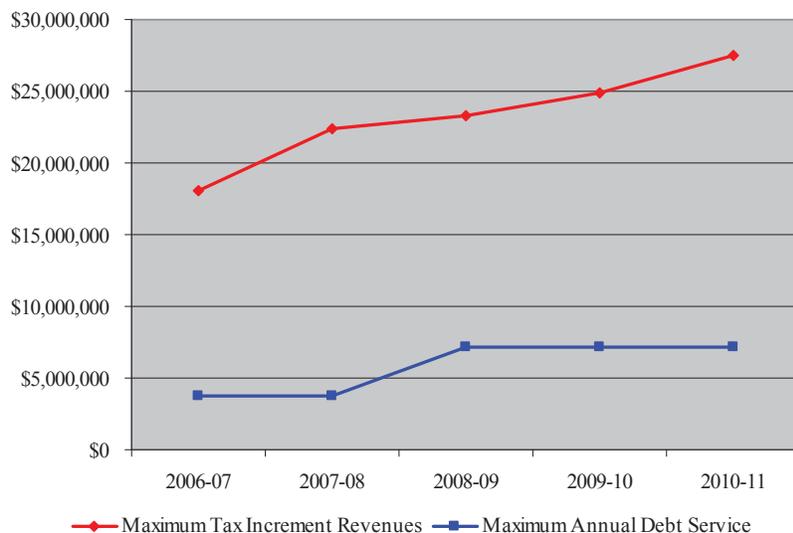
**Figure 32: Incremental Assessed Value - South Park Blocks Urban Renewal**

**Security**

The last date to issue long-term debt for the South Park Blocks urban renewal area was in July 2008, although the district has remaining maximum indebtedness of \$31.6 million. There currently are no plans to amend the South Parks Blocks urban renewal plan to extend the last date to issue long-term or interim debt and no additional long-term debt is planned for the district. Figures 32 and 33 show the growth in incremental assessed value over the past five years and the maximum tax increment revenues in relation to maximum annual debt service.



**Figure 33: Revenue to Debt Service Comparison - South Park Blocks Urban Renewal**



# Airport Way

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## Urban Renewal District Bonds

### District Summary

Year of URA Formation: .....1986  
 District Type:.....Option 3  
 Final Year to Issue Debt: .....2011 (Expired)  
 Remaining Maximum Indebtedness: .....None  
 District Area:.....2,713 acres  
 Frozen AV Base:.....\$129,701,177  
 FY2010-11 District AV: .....\$1,207,600,877

### Fiscal Year 2010-11 Highlights

Debt Issued: .....None  
 Rating Actions: .....None  
 Refinancing Activity: .....None  
 Other Activities: .....None

### Bond Rating

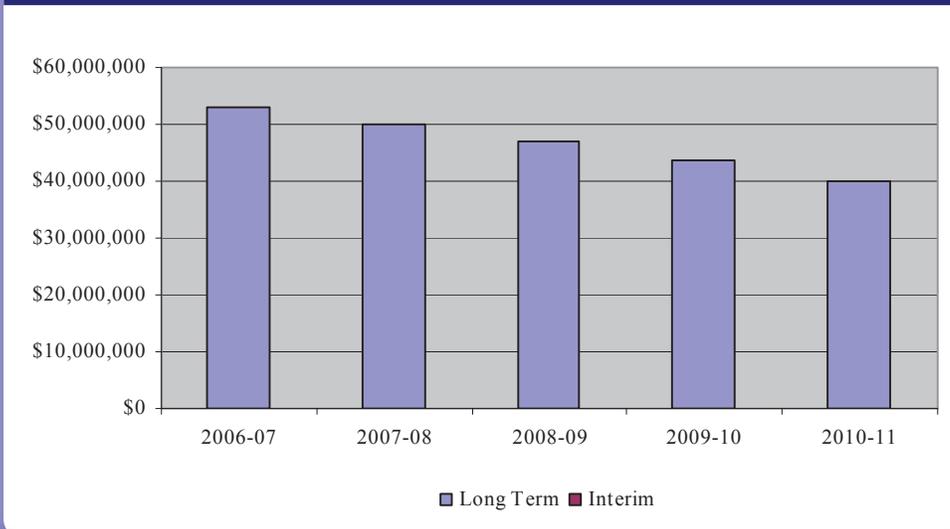
Aa3 (Moody's)

### Debt Outstanding

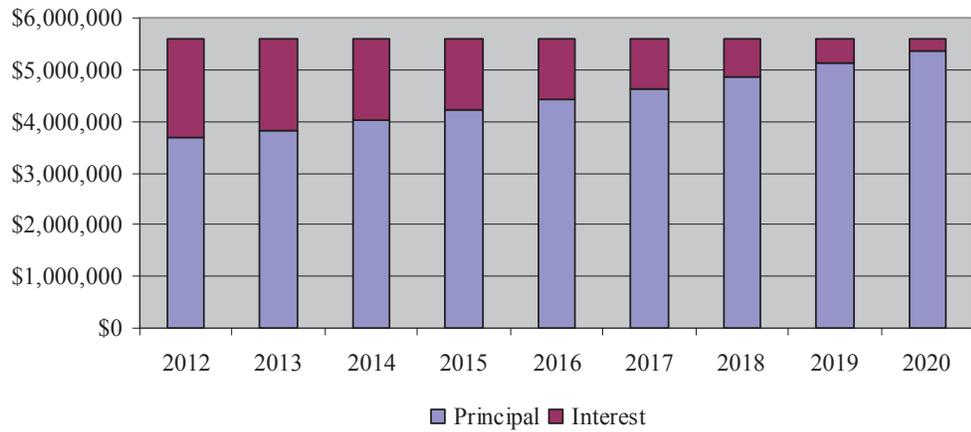
Interim:.....None  
 Long-Term Bonds: .....\$40,140,000

Issue	Issue Date	Final Maturity	Amount Issued	Amount Outstanding
<b>Airport Way</b>				
2005 Series A	9/29/2005	6/15/2020	\$45,370,000	\$40,140,000

**Figure 34: Five-Year History of Outstanding Airport Way Urban Renewal Debt**



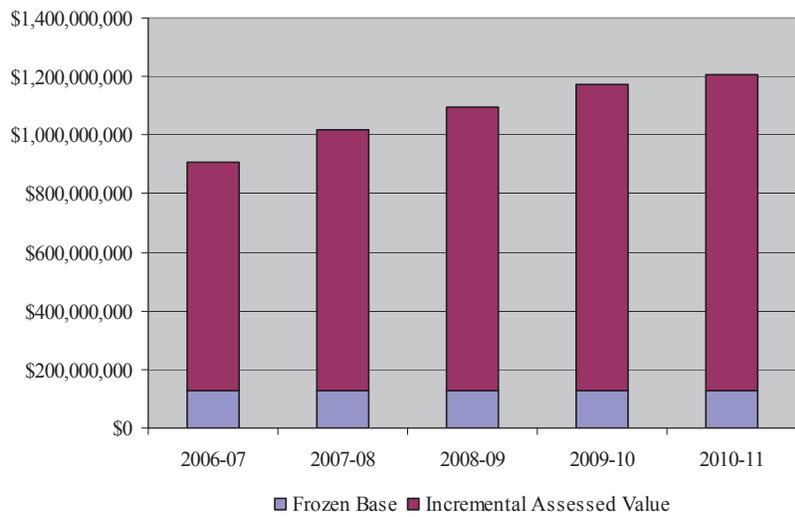
**Figure 35: Total Annual Debt Service Requirements - Airport Way Urban Renewal Bonds**



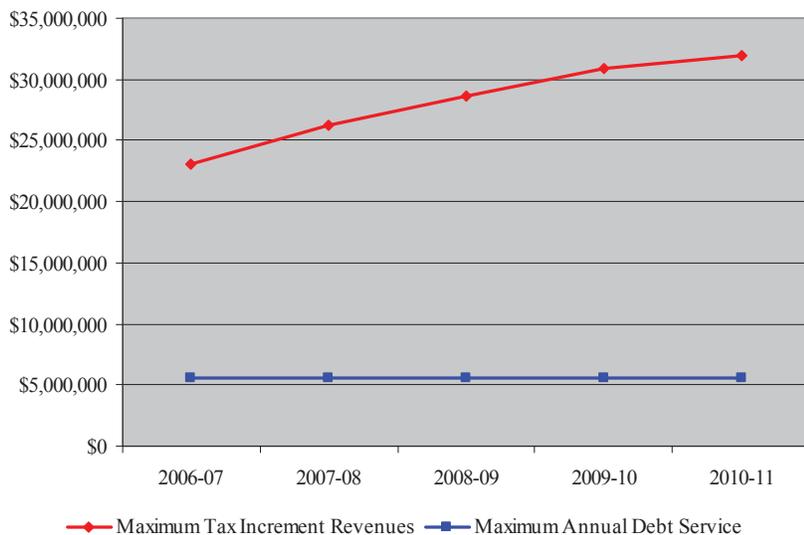
**Figure 36: Incremental Assessed Value - Airport Way Urban Renewal**

**Security**

Airport Way has reached its maximum indebtedness limitation and no additional tax increment bonds may be issued. Figures 36 and 37 show the growth in incremental assessed value over the past five years and the maximum tax increment revenues in relation to maximum annual debt service.

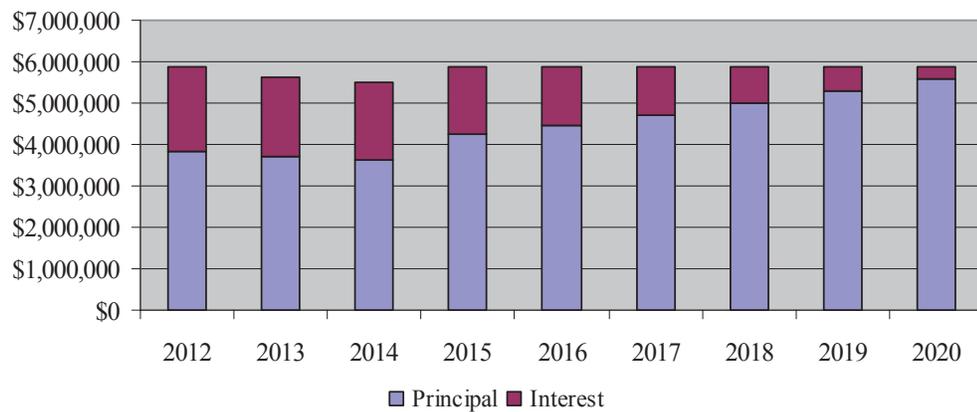


**Figure 37: Revenue to Debt Service Comparison - Airport Way Urban Renewal**





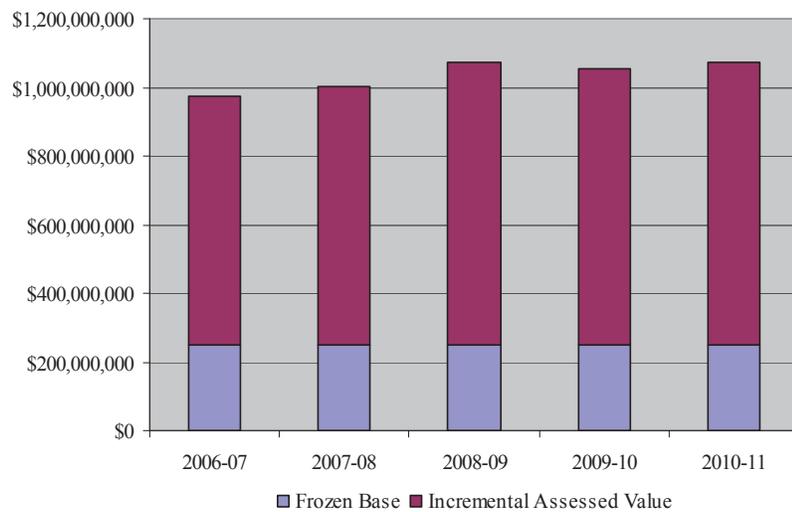
**Figure 39: Total Annual Debt Service Requirements - Oregon Convention Center Urban Renewal Bonds**



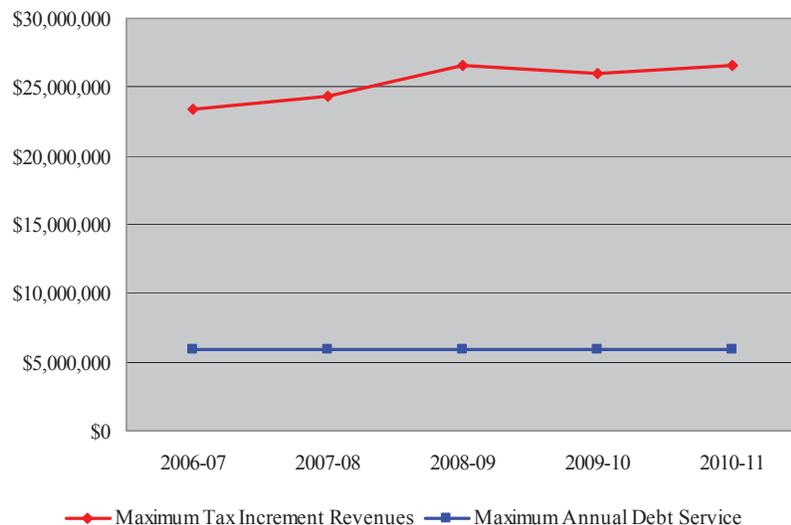
**Figure 40: Incremental Assessed Value - Oregon Convention Center Urban Renewal**

**Security**

The Oregon Convention Center is the only remaining Option 3 district for which long-term debt remains to be issued. The final issue of debt is planned for 2013 and is expected to utilize the remaining maximum indebtedness of this urban renewal area. Figures 40 and 41 show the growth in incremental assessed value over the past five years and the maximum tax increment revenues in relation to maximum annual debt service.

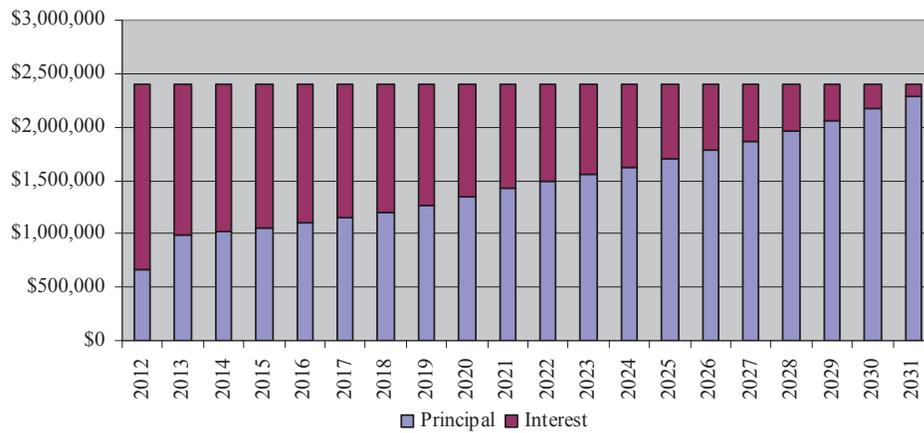


**Figure 41: Revenue to Debt Service Comparison - Oregon Convention Center Urban Renewal**

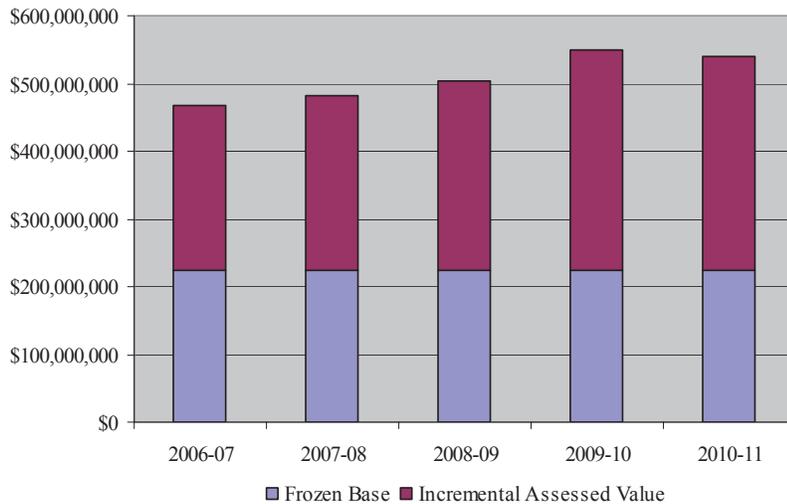




**Figure 43: Total Annual Debt Service Requirements - Central Eastside Urban Renewal Bonds**



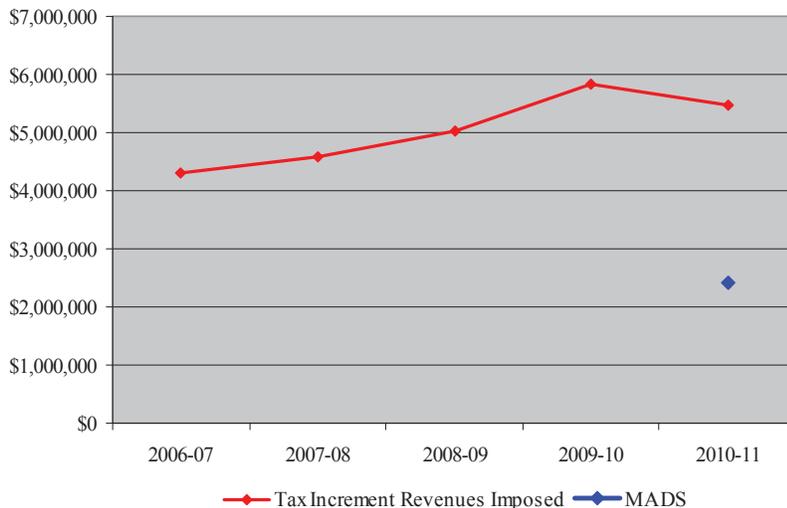
**Figure 44: Incremental Assessed Value - Central Eastside Urban Renewal**



**Security**

Figures 44 and 45 show the growth in incremental assessed value over the past five years and the imposed tax increment revenues in relation to maximum annual debt service. Central Eastside had no outstanding long-term debt prior to fiscal year 2010-11.

**Figure 45: Revenue to Debt Service Comparison - Central Eastside Urban Renewal**



# Lents Town Center

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## Urban Renewal District Bonds

### District Summary

Year of URA Formation: ..... 1998  
 District Type:..... Standard Rate Plan  
 Final Year to Issue Debt: ..... 2020  
 Remaining Maximum Indebtedness: ..... \$151,595,000  
 District Area:..... 2,846 acres  
 Frozen AV Base:..... \$736,224,033  
 FY2010-11 District AV: ..... \$1,218,679,154

### Fiscal Year 2010-11 Highlights

Debt Issued: ..... None  
 Rating Actions: ..... None  
 Refinancing Activity: ..... None  
 Other Activities:..... None

### Bond Rating

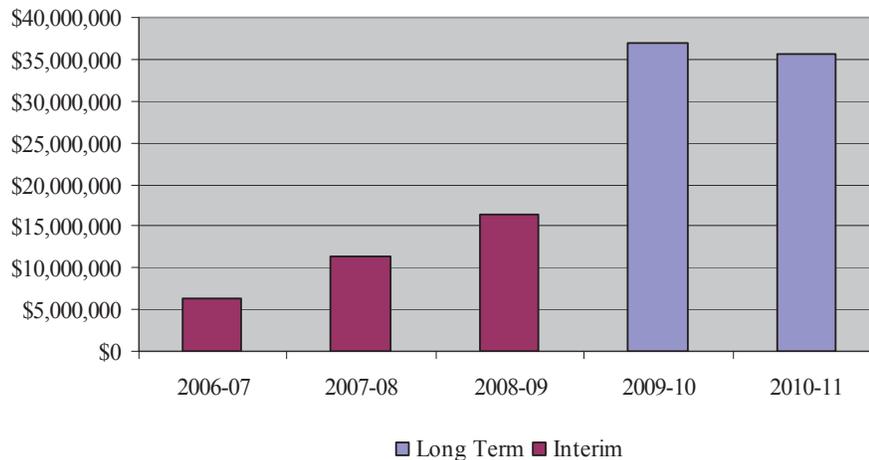
A1 (Moody's)

### Debt Outstanding

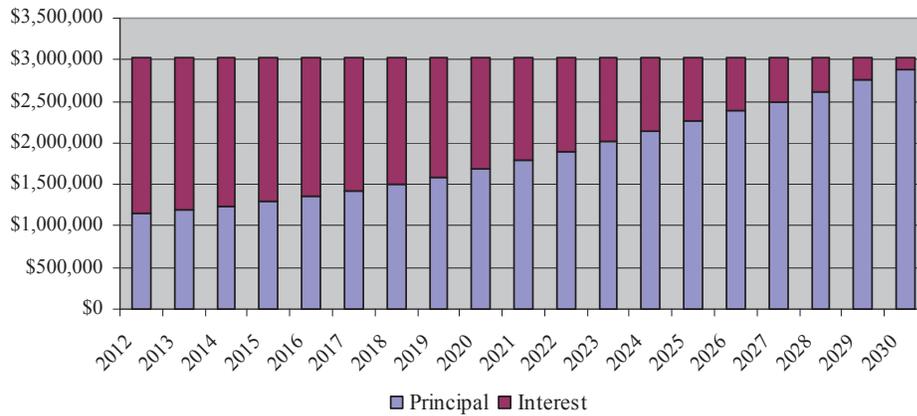
Interim:..... None  
 Long-Term Bonds: ..... \$35,715,000

Issue	Issue Date	Final Maturity	Amount Issued	Amount Outstanding
2010 Series A	6/24/2010	6/15/2024	\$21,240,000	\$20,065,000
2010 Series B	6/24/2010	6/15/2030	\$15,650,000	\$15,650,000
Total			\$36,890,000	\$35,715,000

**Figure 46: Five-Year History of Outstanding Lents Town Center Urban Renewal Debt**



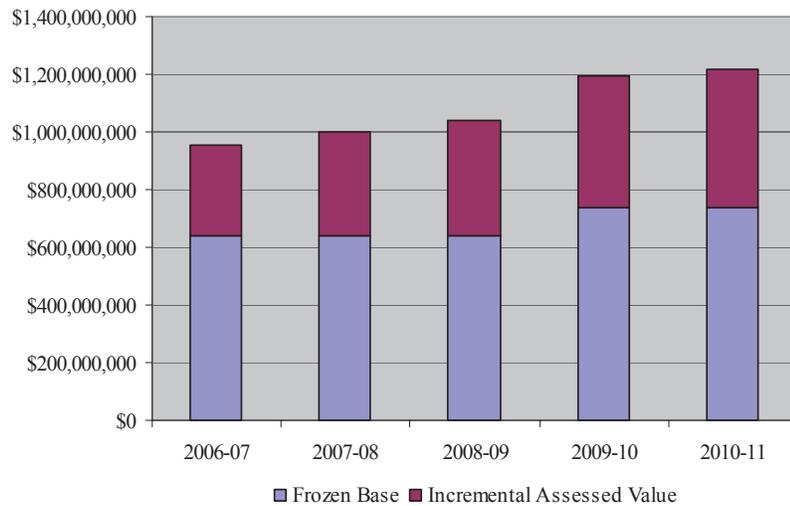
**Figure 47: Total Annual Debt Service Requirements - Lents Town Center Urban Renewal Bonds**



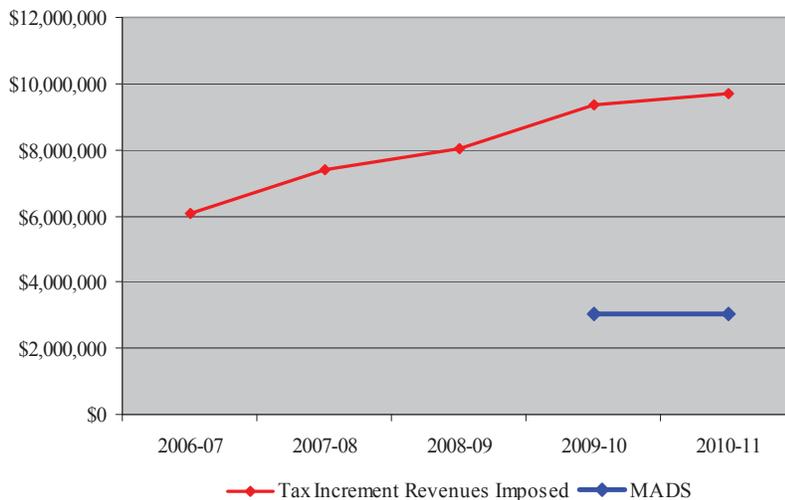
**Figure 48: Incremental Assessed Value - Lents Town Center Urban Renewal**

**Security**

Figures 48 and 49 show the growth in incremental assessed value over the past five years and the imposed tax increment revenues in relation to maximum annual debt service.



**Figure 49: Revenue to Debt Service Comparison - Lents Town Center Urban Renewal**



# North Macadam

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## Urban Renewal District Bonds

### District Summary

Year of URA Formation: .....1999  
 District Type:.....Standard Rate Plan  
 Final Year to Issue Debt: .....2020  
 Remaining Maximum Indebtedness: .....\$192,762,000  
 District Area:.....402 acres  
 Frozen Base:.....\$192,609,397  
 FY2010-11 District AV: .....\$848,281,074

### Fiscal Year 2010-11 Highlights

Debt Issued: .....\$64.925 million  
 Urban Renewal and  
 Redevelopment  
 Bonds  
 Rating Actions: .....Moody's A1  
 Refinancing Activity: .....None  
 Other Activities: .....None

### Bond Rating

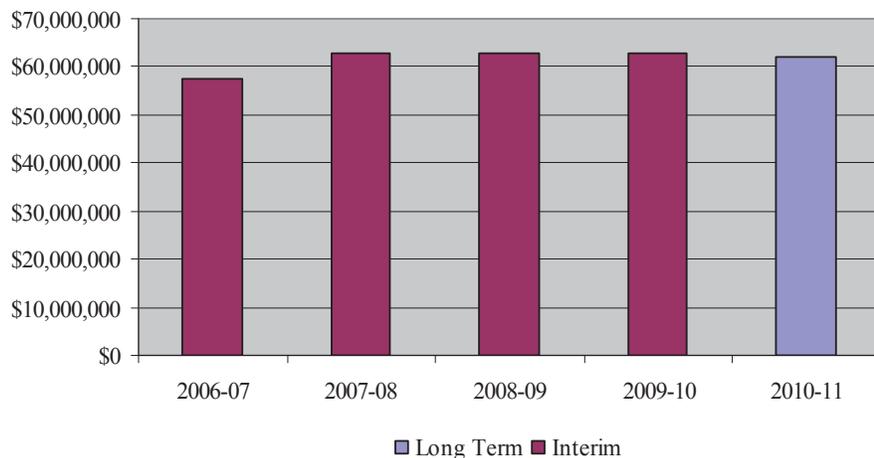
A1 (Moody's)

### Debt Outstanding

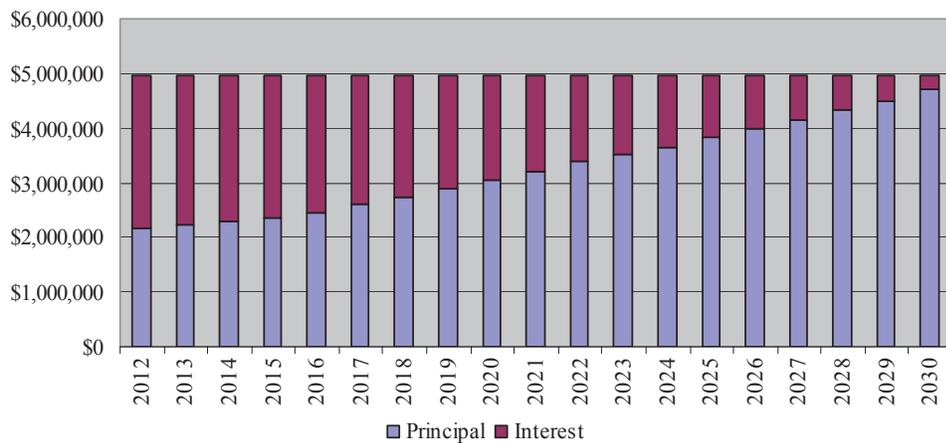
Interim: .....None  
 Long-Term Bonds: .....\$62,060,000

Issue	Issue Date	Final Maturity	Amount Issued	Amount Outstanding
2010 Series A (Taxable)	9/23/2010	6/15/2022	\$29,645,000	\$26,780,000
2010 Series B	9/23/2010	6/15/2030	\$35,280,000	\$35,280,000
Total			\$64,925,000	\$62,060,000

**Figure 50: Five-Year History of Outstanding North Macadam Urban Renewal Debt**



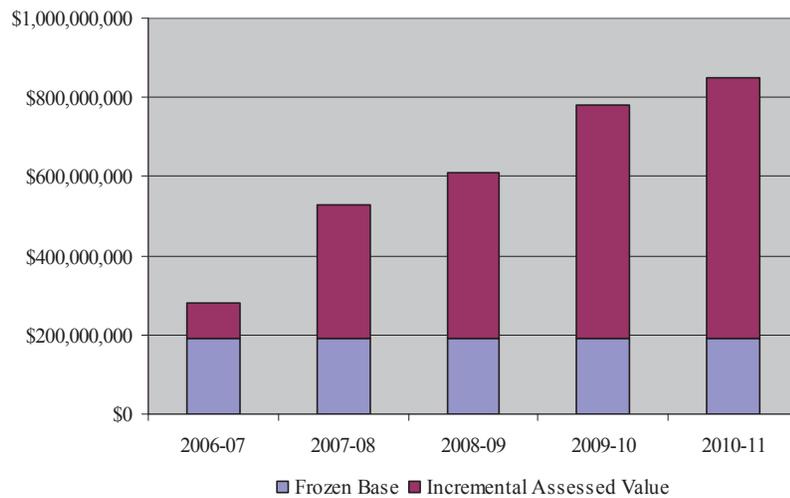
**Figure 51: Total Annual Debt Service Requirements - North Macadam Urban Renewal Bonds**



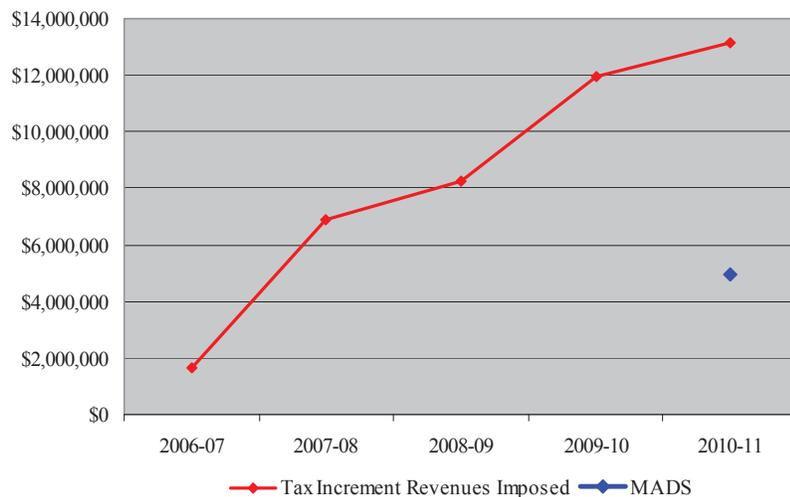
**Figure 52: Incremental Assessed Value - North Macadam Urban Renewal**

**Security**

Figures 52 and 53 show the growth in incremental assessed value over the past five years and the imposed tax increment revenues in relation to maximum annual debt service.



**Figure 53: Revenue to Debt Service Comparison - North Macadam Urban Renewal**



# Interstate Corridor

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## Urban Renewal District Bonds

### District Summary

Year of URA Formation: ..... 2000  
 District Type:..... Standard Rate Plan  
 Final Year to Issue Debt: ..... 2021  
 Remaining Maximum Indebtedness: ..... \$1,718,563,192  
 District Area:..... 3,804 acres  
 Frozen AV Base:..... \$1,051,408,349  
 FY2010-11 District AV: ..... \$1,718,563,192

### Fiscal Year 2010-11 Highlights

Debt Issued: ..... None  
 Rating Actions: ..... None  
 Refinancing Activity: ..... None  
 Other Activities: ..... None

### Bond Rating

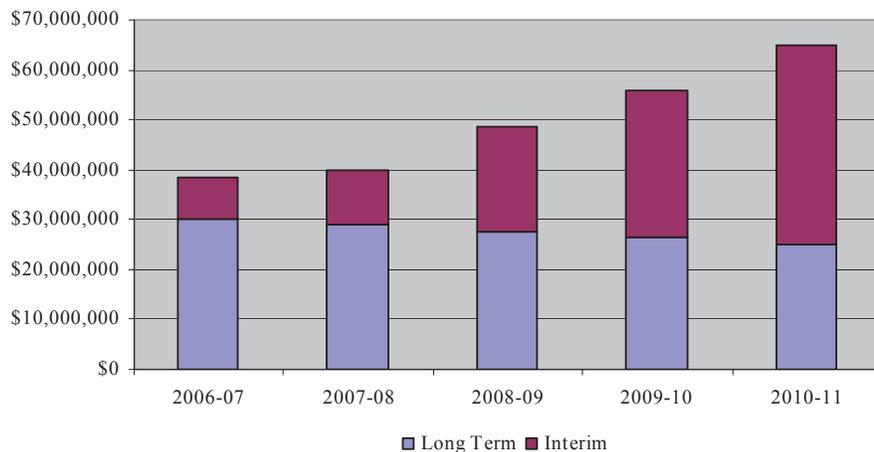
A2 (Moody's)

### Debt Outstanding

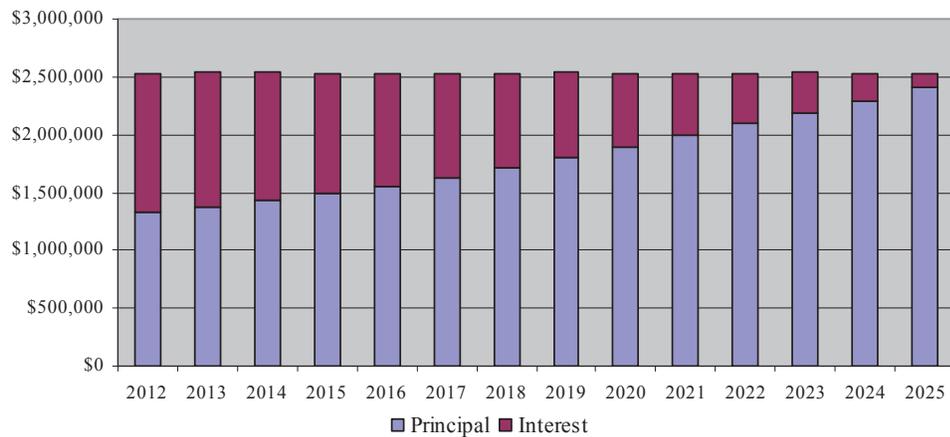
Interim:..... \$39,721,223  
 Long-Term Bonds: ..... \$25,185,000

Issue	Issue Date	Final Maturity	Amount Issued	Amount Outstanding
2004 Series A	12/9/2004	6/15/2025	\$32,310,000	\$25,185,000

**Figure 54: Five-Year History of Outstanding Interstate Corridor Urban Renewal Debt**



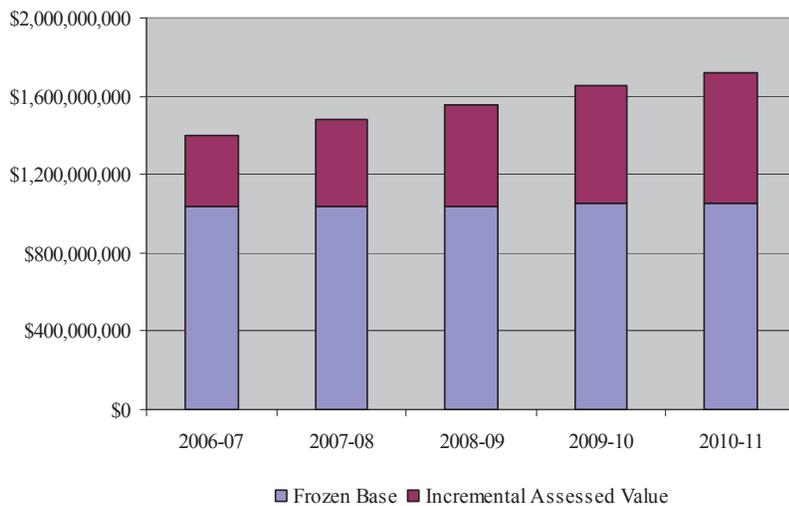
**Figure 55: Total Annual Debt Service Requirements - Interstate Corridor Urban Renewal Bonds**



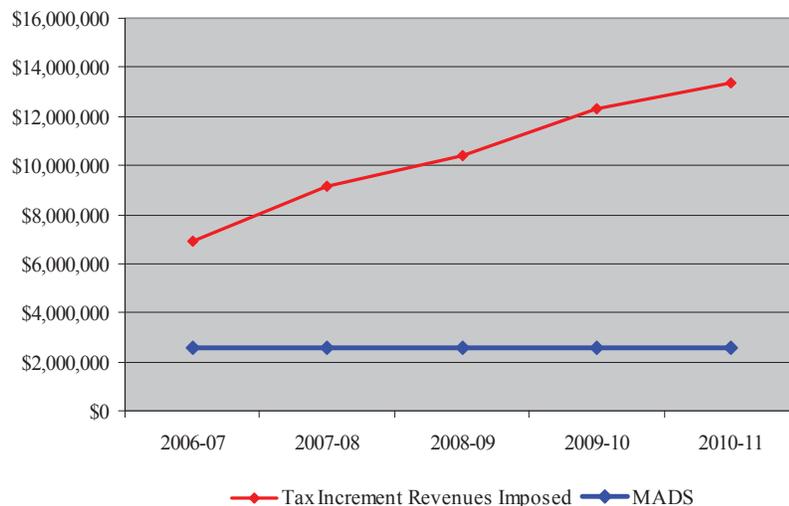
**Figure 56: Incremental Assessed Value - Interstate Corridor Urban Renewal**

**Security**

Figures 56 and 57 show the growth in incremental assessed value over the past five years and the imposed tax increment revenues in relation to maximum annual debt service.



**Figure 57: Revenue to Debt Service Comparison - Interstate Corridor Urban Renewal**



# River District

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## Urban Renewal District Bonds

### District Summary

Year of URA Formation: .....1998  
 District Type:.....Standard Rate Plan  
 Final Year to Issue Debt: .....2021  
 Remaining Maximum Indebtedness: .....\$279,590,282  
 District Area:.....309 acres  
 Frozen Base:.....\$461,577,974  
 FY2010-11 District AV: .....\$1,950,172,853

### Fiscal Year 2010-11 Highlights

Debt Issued: .....None  
 Rating Actions: .....None  
 Refinancing Activity: .....None  
 Other Activities:.....None

### Bond Rating

A2 (Moody's)

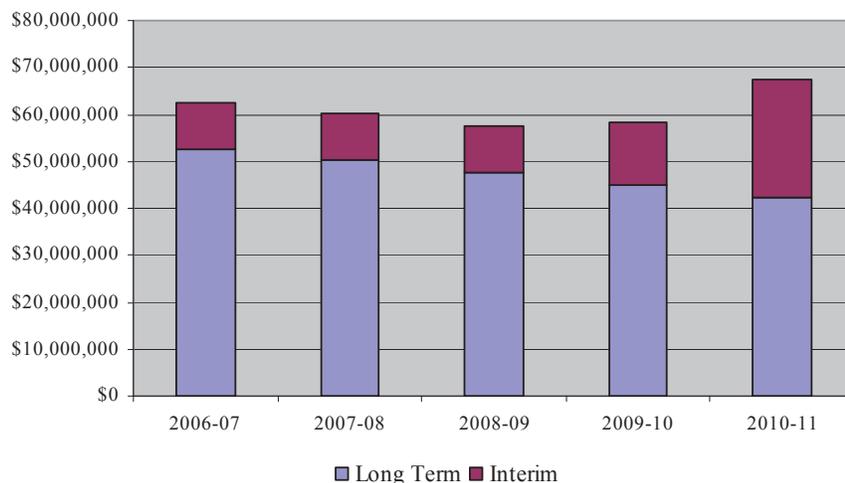
### Debt Outstanding

Interim:.....\$39,721,223  
 Long-Term Bonds:.....\$42,410,000

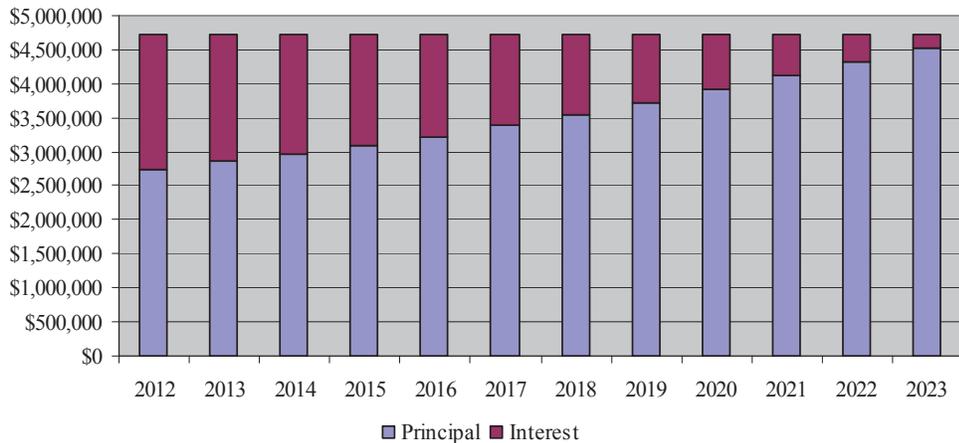
### Security

Issue	Issue Date	Final Maturity	Amount	
			Amount Issued	Outstanding
2003 Series A	6/26/2003	6/15/2023	\$33,180,000	\$33,180,000
2003 Series B (Taxable)	6/26/2003	6/15/2015	\$28,760,000	\$9,230,000
<b>Total</b>			<b>\$61,940,000</b>	<b>\$42,410,000</b>

**Figure 58: Five-Year History of Outstanding River District Urban Renewal Debt**

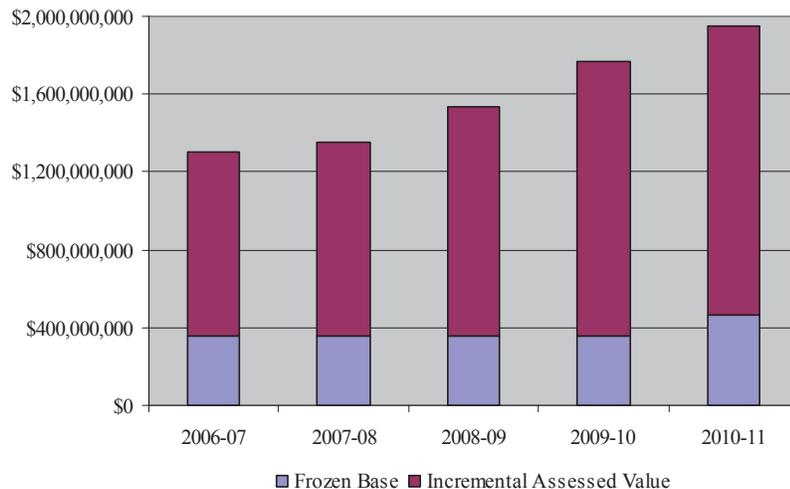


**Figure 59: Total Annual Debt Service Requirements - River District Urban Renewal Bonds**

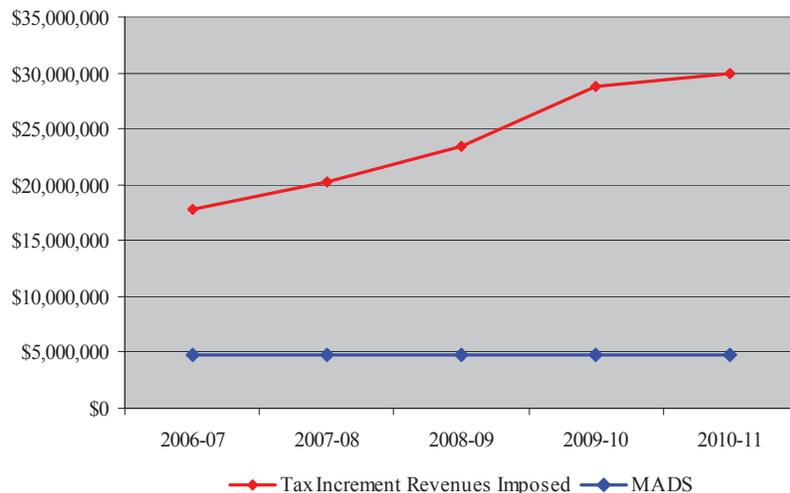


**Figure 60: Incremental Assessed Value - River District Urban Renewal**

Figures 60 and 61 show the growth in incremental assessed value over the past five years and the imposed tax increment revenues in relation to maximum annual debt service.



**Figure 61: Revenue to Debt Service Comparison - River District Urban Renewal**



# Gateway Regional Center

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## Urban Renewal District Bonds

### District Summary

Year of URA Formation: .....	2001
District Type:.....	Standard Rate Plan
Final Year to Issue Debt: .....	2022
Remaining Maximum Indebtedness: .....	\$136,559,927
District Area:.....	659 acres
Frozen Base:.....	\$307,174,681
FY2010-11 District AV: .....	\$469,395,896

### Fiscal Year 2010-11 Highlights

Debt Issued: .....	None
Rating Actions: .....	None
Refinancing Activity: .....	None
Other Activities:.....	None

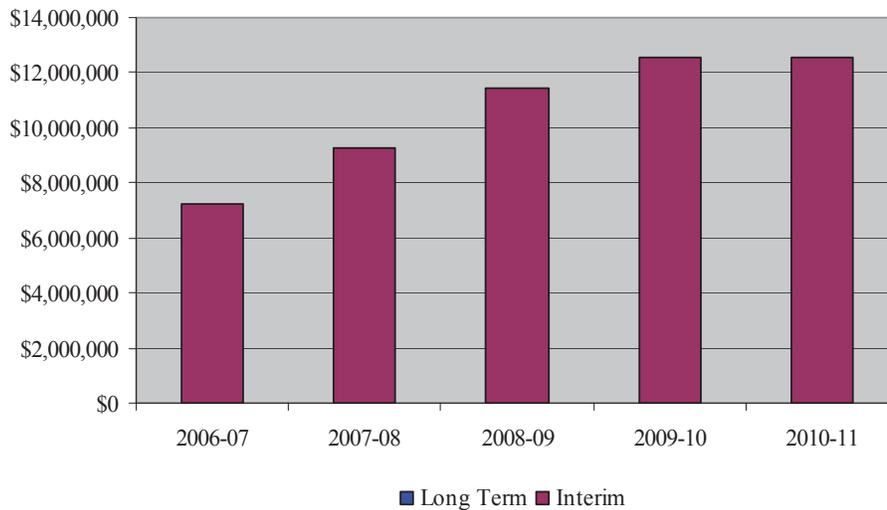
### Bond Rating

None

### Debt Outstanding

Interim:.....	\$12,545,073
Long-Term Bonds:.....	None

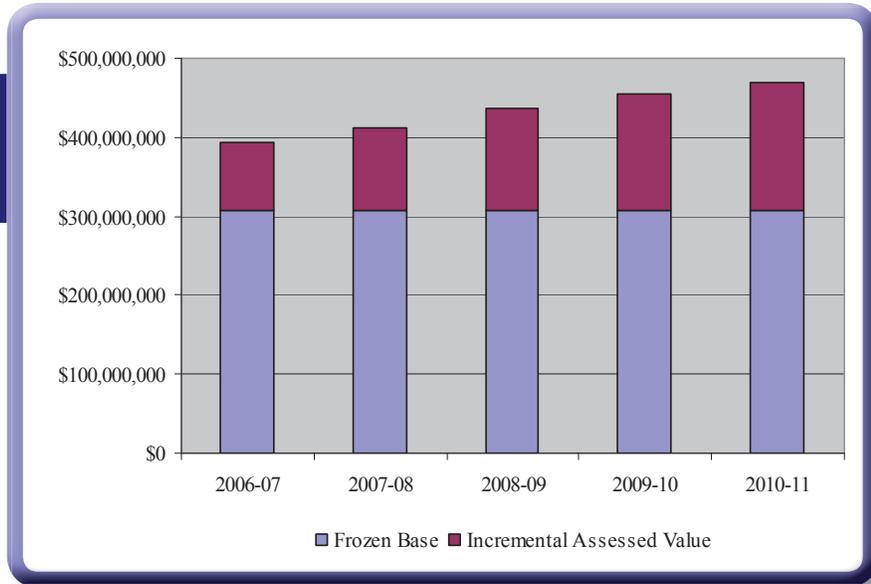
**Figure 62: Five-Year History of Outstanding Gateway Regional Center Urban Renewal Debt**



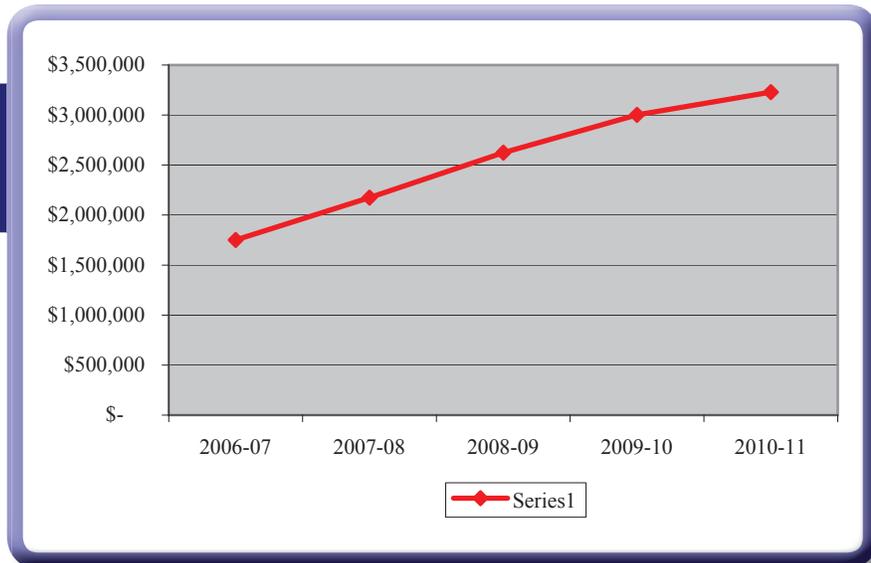
**Figure 63: Incremental Assessed Value - Gateway Regional Center Urban Renewal**

**Security**

Figures 63 and 64 show the growth in incremental assessed value over the past five years and the imposed tax increment revenues. Gateway has no long-term debt outstanding.



**Figure 64: Revenue to Debt Service Comparison - Gateway Regional Center Urban Renewal**



# Willamette Industrial

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## Urban Renewal District Bonds

### District Summary

Year of URA Formation: ..... 2004  
District Type:..... Reduced Rate Plan  
Final Year to Issue Debt: ..... 2024  
Remaining Maximum Indebtedness: ..... \$197,155,000  
District Area:..... 755 acres  
Frozen Base:..... \$481,443,135  
FY2010-11 District AV: ..... \$428,654,319

### Fiscal Year 2010-11 Highlights

Debt Issued: ..... None  
Rating Actions: ..... None  
Refinancing Activity: ..... None  
Other Activities: ..... None

### Bond Rating

None

### Debt Outstanding

Interim: ..... None  
Long-Term Bonds: ..... None

# CONCLUSION

While overall City debt outstanding increased during fiscal year 2010-11, all new City debt was issued in conjunction with capital expenditures that were programmed and budgeted. The City continued a long-standing trend of not issuing long-term debt for short-term operational needs. Overall, issuance of additional debt did not significantly outpace the revenue systems that support the various categories of City debt as indicated by historical trending information in this report. When compared to available benchmarks, rating medians and debt service coverage capacity, the City's debt position is favorable.

Responsible use of debt financing spreads costs of City infrastructure over the period during which an asset will be useable, allows the City to accommodate significant capital needs, provides management control over cash flows and expenses, and contributes to a healthy government financial system. We hope that this report provides a helpful presentation of key information that the City uses on a daily basis to monitor and maintain stable and sustainable City debt programs.

Additional information is also available on the City's Debt Management website at [www.portlandonline.com/omf/debt](http://www.portlandonline.com/omf/debt), and questions may be addressed directly to the City's Debt Manager, B. Jonas Biery at [jonas.biery@portlandoregon.gov](mailto:jonas.biery@portlandoregon.gov).

# EXHIBIT A

## About the City's Debt Management Program

The City's Debt Management Program team currently consists of three full-time employees dedicated to administration and management of the City's debt portfolio. Additionally, the Debt Management team relies on critical input from the City Treasurer, Chief Financial Officer and Chief Administrative Officer, as well as participation from other staff of the Office of Management and Finance and the bureaus that utilize services of the Debt Management Program. The Debt Management Program is housed within the Office of Management and Finance, Bureau of Financial Services, in the Public Finance and Treasury Division.

Primary responsibilities of the Debt Management Program include:

- Providing advice to City bureaus and staff regarding capital markets and application of debt towards capital projects.
- Issuance of bonds, lines of credits and other financing tools, at the direction of City Council, for all City bureaus and for the Portland Development Commission.
- Close and constant monitoring of City debt ratios and financial indicators.
- Monitoring outstanding debt for opportunities to reduce City borrowing costs.
- Preparation and submittal of Primary Disclosure for new bond offerings, and Continuing Disclosure for all existing bond issues.
- Procuring ratings for City bonds.
- Ensuring timely payment of all City debt obligations.
- Arbitrage tracking.
- Serving as a point of contact for investors looking to invest in the City's publicly offered bonds, including ongoing maintenance of the Debt Management website.
- Monitoring public debt markets and other financial events, and maintaining relationships with bankers, underwriters and other related financial service providers.
- Managing contracts with the City's Bond Counsel, Paying Agent, Financial Advisor and other debt-related consultants and service providers.

The City Debt Policy and information regarding recent and historic bond issues can be found online at [www.portlandonline.com/omf/debt](http://www.portlandonline.com/omf/debt). Debt Management Program staff aim to continuously improve debt management procedures to comply with, or to exceed, recommended practices as determined by the Municipal Securities Rulemaking Board, the Government Finance Officers Association and other regulatory and advisory bodies.

Questions regarding City debt, including information presented in the Annual Debt Report, can be directed to the City's Debt Manager, B. Jonas Biery at [jonas.biery@portlandoregon.gov](mailto:jonas.biery@portlandoregon.gov).

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