In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2013 Series A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the 2013 Series A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In the opinion of Bond Counsel, interest on the 2013 Series A Bonds is exempt from Oregon personal income tax under existing law. See "TAX MATTERS" herein for a discussion of the opinion of Bond Counsel.

## \$253,635,000 City of Portland, Oregon Second Lien Water System Revenue and Refunding Bonds 2013 Series A

**Base CUSIP: 736754** 

**DATED:** Date of Delivery

**DUE:** October 1, as shown on inside cover

RATING: Moody's Aa1

The Second Lien Water System Revenue and Refunding Bonds, 2013 Series A (the "2013 Series A Bonds") will be issued in registered book-entry form only, in denominations of \$5,000 or integral multiples thereof. The 2013 Series A 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 2013 Series A Bonds. While Cede & Co. is the registered owner of the 2013 Series A 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 2013 Series A Bonds. See "BEO System" herein.

The 2013 Series A Bonds will bear or accrue interest at the rates set forth in the schedule on the inside cover. The 2013 Series A Bonds will be dated as of the Date of Delivery. Interest on the 2013 Series A Bonds will be payable semiannually on April 1 and October 1 of each year, beginning October 1, 2013.

The 2013 Series A Bonds are being issued to finance a portion of the costs of the Capital Improvement Plan for the Water System of the City of Portland (the "City") as more fully described herein. Additionally, proceeds of the 2013 Series A Bonds will be used to refund certain maturities of the City's Water System Revenue Refunding Bonds, 2004 Series A, the Water System Revenue Bonds, 2004 Series B, and the Second Lien Water System Revenue Bonds, 2006 Series A. Proceeds also will fund the First Subaccount Reserve Requirement for the 2013 Series A Bonds and pay issuance costs.

The 2013 Series A Bonds are secured by a second lien on, and are payable solely from, the Net Revenues of the City's Water System and amounts deposited in the Second Lien Bond Account, including any Federal Subsidies on Second Lien Bonds, as provided in the Master Second Lien Water System Revenue Bond Declaration (the "Master Second Lien Bond Declaration.") The lien of the pledge that secures the 2013 Series A Bonds is subordinate to the lien on the Net Revenues that secures the First Lien Bonds (as defined in the Master Second Lien Bond Declaration) that the City has issued, and may issue in the future, under the First Lien Bond Ordinance. The 2013 Series A Bonds are also secured by the First Subaccount of the Second Lien Bond Reserve Account as provided in the First Supplemental Bond Declaration. The 2013 Series A 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 2013 Series A Bonds. No recourse may be had against any funds or assets of the City (other than the Net Revenues of the Water System and the amounts credited to the First Subaccount) to enforce payment of any amounts owing under or with respect to the 2013 Series A Bonds.

The 2013 Series A Bonds are subject to optional redemption prior to maturity as more fully described herein. See "REDEMPTION OF THE 2013 SERIES A BONDS."

The 2013 Series A Bonds are offered when, as and if issued by the City and accepted by the Underwriters, subject to prior sale, withdrawal or modification of the offer without notice, to the final approving opinion of Hawkins Delafield and Wood LLP, Bond Counsel, Portland, Oregon, and to certain other conditions. Certain legal matters will be passed upon for the Underwriters by their Counsel, Orrick, Herrington & Sutcliffe LLP, Portland, Oregon. The City expects that the 2013 Series A Bonds will be available for delivery through the facilities of DTC in New York, New York on or about May 2, 2013.

Citigroup

**BofA Merrill Lynch** 

Wells Fargo Securities

#### **MATURITY SCHEDULE**

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

Due October 1	Principal <u>Amount</u>	Interest <u>Rate</u>	Price or <u>Yield</u>	CUSIP No. 736754*
2013	\$9,395,000	2.00%	0.17%	LE0
2014	3,000,000	2.00%	0.30%	LF7
2014	8,530,000	5.00%	0.30%	MA7
2015	3,000,000	3.00%	0.42%	LG5
2015	9,040,000	5.00%	0.42%	MB5
2016	9,265,000	5.00%	0.58%	MC3
2017	3,000,000	3.00%	0.76%	LH3
2017	6,715,000	5.00%	0.76%	MD1
2018	3,000,000	3.00%	0.96%	LJ9
2018	6,000,000	5.00%	0.96%	ME9
2019	3,000,000	3.00%	1.16%	LK6
2019	6,410,000	5.00%	1.16%	MF6
2020	3,000,000	4.00%	1.42%	LL4
2020	6,840,000	5.00%	1.42%	MG4
2021	3,000,000	4.00%	1.61%	LM2
2021	8,450,000	5.00%	1.61%	MH2
2022	12,030,000	5.00%	1.81%	MJ8
2023	3,000,000	4.00%	1.98%†	LN0
2023	9,635,000	5.00%	1.98%†	MK5
2024	8,945,000	5.00%	2.14%†	LP5
2025	9,405,000	5.00%	2.27%†	LQ3
2026	9,885,000	5.00%	2.41%†	LR1
2027	10,395,000	5.00%	2.53%†	LS9
2028	10,815,000	3.00%	3.18%	LT7
2029	11,200,000	4.00%	3.15%†	LU4
2030	11,650,000	4.00%	3.21%†	LV2
2031	10,145,000	4.00%	3.26%†	ML3
2031	2,000,000	5.00%	2.81%†	LW0
2032	5,925,000	4.00%	3.31%†	MM1
2032	2,000,000	5.00%	2.86%†	LX8
2033	5,205,000	4.00%	3.36%†	MN9
2033	3,070,000	5.00%	2.91%†	LY6

\$36,685,000 4.00% 2013 Series A Term Bonds due October 1, 2037; Yield 3.55%  $^\dagger$  CUSIP Number\* 736754 LZ3

<sup>\*</sup> Registered Trademark 2013, American Bankers Association. CUSIP data is provided by the CUSIP Service Bureau, managed by Standard and Poor's Financial Services LLC, a division of McGraw Hill Companies, Inc.

<sup>†</sup> Priced to par call on April 1, 2023.

#### OFFICIAL STATEMENT

#### OF THE

#### CITY OF PORTLAND

# MULTNOMAH, WASHINGTON AND CLACKAMAS COUNTIES STATE OF OREGON

Relating to

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

#### **CITY COUNCIL**

Charlie Hales,
Mayor and Commissioner of Finance and Administration

Amanda Fritz, Commissioner No. 1 Nick Fish, Commissioner No. 2 Dan Saltzman, Commissioner No. 3 Steve Novick, Commissioner No. 4

#### **CITY OFFICIALS**

LaVonne Griffin-Valade, City Auditor Jennifer Cooperman, City Treasurer James H. Van Dyke, Interim City Attorney

Jack D. Graham, Chief Administrative Officer Richard F. Goward, Jr., Chief Financial Officer\*

#### **DEBT MANAGEMENT**

B. Jonas Biery, Debt Manager City of Portland 1120 SW Fifth Avenue, Room 1250 Portland, Oregon 97204 Phone: (503) 823-4222 Fax: (503) 823-4209 Jonas.Biery@portlandoregon.gov

#### **BOND COUNSEL**

Hawkins Delafield & Wood LLP Portland, Oregon

<sup>\*</sup> Richard F. Goward, Jr., Chief Financial Officer of the City, has announced his retirement effective April 30, 2013. Effective May 1, 2013, the City's Chief Administrative Officer will assume the duties and responsibilities of the Chief Financial Officer on at least an interim basis.

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.

This Official Statement speaks only as of its date, and the information contained herein is subject to change without notice. Certain statements contained in this Official Statement are projections, forecasts and other statements about future events. These statements ("Forward Looking Statements") are not statements of historical facts and no assurance can be given that the results shown in these Forward Looking Statements will be achieved. See "FORWARD LOOKING STATEMENTS." All estimates 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 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.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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 2013 Series A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. 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 Underwriters may over allot or effect transactions which stabilize or maintain the market price of the 2013 Series A 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**

\$253,635,000

# SECOND LIEN WATER SYSTEM REVENUE AND REFUNDING BONDS 2013 SERIES A

#### INTRODUCTION

The purpose of this Official Statement is to set forth certain information concerning the City of Portland, Oregon (the "City"), the City's Water System (the "Water System"), and the City's Second Lien Water System Revenue and Refunding Bonds, 2013 Series A (the "2013 Series A Bonds") dated as of the Date of Delivery.

The 2013 Series A Bonds will be issued pursuant to the authority conferred by Oregon Revised Statutes 287A.150. The City is authorized to refund outstanding revenue bonds by ORS 287A.360 to 287A.380. The 2013 Series A Bonds will be issued in accordance with City Ordinance No. 185916 adopted by the City Council on March 6, 2013 (the "Ordinance"), which authorizes the issuance of the 2013 Series A Bonds and delegates the authority to the City's Debt Manager to establish the specific terms and conditions of the 2013 Series A Bonds and to execute and deliver the Master Second Lien Water System Revenue Bond Declaration (the "Master Second Lien Bond Declaration") and the First Supplemental Bond Declaration to the Master Second Lien Water System Revenue Bond Declaration (the "First Supplemental Bond Declaration").

The City's Debt Manager will execute and deliver the Master Second Lien Bond Declaration, which memorializes terms under which the City may issue obligations that have a second lien on the Net Revenues of the Water System (referred to as the "Second Lien Bonds") as more fully described herein. The City's Debt Manager also will execute and deliver the First Supplemental Bond Declaration, which describes specific terms of the 2013 Series A Bonds, including the interest rates, payment, reserve requirement, and redemption provisions

The 2013 Series A Bonds are special obligations of the City that are payable solely from the Net Revenues that are available for deposit in the Second Lien Bond Account and from amounts credited to the First Subaccount of the Second Lien Bond Reserve Account. The City has pledged the Net Revenues that are available for deposit in the Second Lien Bond Account and the amounts credited to the First Subaccount to pay the 2013 Series A Bonds. The liens of these pledges are subordinate to the liens that secure the First Lien Bonds (as defined in the Master Second Lien Bond Declaration). The First Lien Bonds are issued under City Ordinance No. 174241, as it has been amended and may be amended from time to time (the "First Lien Bond Ordinance").

The body of this Official Statement briefly summarizes many of the provisions of the Master Second Lien Bond Declaration and the First Supplemental Bond Declaration and does not purport to be complete. Reference is made to the form of the Master Second Lien Bond Declaration found in Appendix A and the First Supplemental Bond Declaration found in Appendix B for full and complete details of their proposed contents. Capitalized terms that are used but not defined in the body of this Official Statement have the meanings defined for those terms in the Master Second Lien Bond Declaration or the First Supplemental Bond Declaration.

The 2013 Series A 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 2013 Series A Bonds. No recourse may be had against any funds or assets of the City to enforce payment of any amounts owing under or with respect to the 2013 Series A Bonds except the amounts specifically pledged to pay those Bonds in the Master Second Lien Bond Declaration and the First Supplemental Declaration.

#### THE 2013 SERIES A BONDS

#### **DESCRIPTION**

The 2013 Series A Bonds will be issued in registered Book Entry Only ("BEO") form, without coupons, in denominations of \$5,000 or integral multiples thereof. The 2013 Series A 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"). While the 2013 Series A Bonds are in BEO form, principal of and interest on the 2013 Series A Bonds will be paid through DTC. See "BEO SYSTEM," found in Appendix G.

The 2013 Series A Bonds are valid and binding obligations of the City. The 2013 Series A Bonds are payable solely from the Net Revenues of the Water System that are available for deposit in the Second Lien Bond Account pursuant to the Master Second Lien Bond Declaration, and amounts deposited in the First Subaccount of the Second Lien Bond Reserve Account. The Water System is operated by the Water Bureau of the City (the "Bureau").

#### **PURPOSE**

The 2013 Series A Bonds are being issued to finance a portion of the costs of the Capital Improvement Plan for the Water System. See "CAPITAL IMPROVEMENT PLAN" herein. The 2013 Series A Bonds also are being issued to refund any or all maturities of the City's Water System Revenue Refunding Bonds, 2004 Series A and Water System Revenue Bonds, 2004 Series B (the "First Lien Refunded Bonds"), and Second Lien Water System Revenue Bonds, 2006 Series A (the "Second Lien Refunded Bonds" and together with the First Lien Refunded Bonds, the "Refunded Bonds"). See "THE 2013 SERIES A BONDS—REFUNDING PLAN" herein. Proceeds of the 2013 Series A Bonds also will be used to fund the First Subaccount Reserve Requirement and to pay costs of issuance.

#### **FORM**

The 2013 Series A Bonds will be issued in fully-registered form without coupons in denominations of \$5,000 or integral multiples thereof. The 2013 Series A Bonds will be issued subject to the BEO System of registration, transfer and payment operated by 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 2013 Series A Bonds, when executed and delivered, will be registered in the name of Cede & Co., as registered owner and nominee for DTC. Purchasers of the 2013 Series A Bonds who are the Beneficial Owners thereof will not receive certificates evidencing their ownership interests in the 2013 Series A Bonds. While Cede & Co. is the registered Owner of the 2013 Series A Bonds (in such capacity, the "Owner") as nominee of DTC, it shall be treated in all respects as the sole Owner of the 2013 Series A Bonds and shall have the right to exercise (in lieu of the Beneficial Owners of the 2013 Series A 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 2013 Series A Bonds under the Bond Declaration or applicable law. So long as the 2013 Series A Bonds are subject to the BEO System, all registrations and transfers of Beneficial Ownership of the 2013 Series A Bonds will be made only through the BEO System. See Appendix G, herein, for a discussion of the BEO System.

#### MATURITY AND PAYMENT

The 2013 Series A Bonds mature on October 1 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 2013 Series A Bonds will be due and payable semiannually on April 1 and October 1 of each year, commencing October 1, 2013, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

So long as the 2013 Series A Bonds are subject to the BEO System, all payments of the principal of and interest on the 2013 Series A Bonds shall be remitted by the 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 2013 Series A Bonds. The City has no responsibility for the distribution of any payments on the 2013 Series A 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 "BEO SYSTEM" in Appendix G herein.

#### REDEMPTION OF THE 2013 SERIES A BONDS

#### Optional Redemption of the 2013 Series A Bonds

The 2013 Series A Bonds maturing on or after October 1, 2023, are subject to redemption prior to maturity in whole or in part at the option of the City on any date on or after April 1, 2023, in any order of maturity and by lot within a maturity. Any such redemption shall be at a price equal to 100% 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 2013 Series A Bonds, the City shall have the right to specify the particular maturities to be redeemed and the aggregate principal amount of each maturity to be redeemed.

#### **Mandatory Redemption of the 2013 Series A Bonds**

The 2013 Bonds maturing on October 1, 2037, are term bonds subject to mandatory redemption in the principal amounts on October 1 of the years shown below, at a redemption price equal to 100 percent of the principal amount thereof, plus interest accrued to the date fixed for redemption.

#### Term Bonds Due October 1, 2037

Year	
(October 1)	Principal Amount
2034	\$8,630,000
2035	8,980,000
2036	9,345,000
$2037^{\dagger}$	9,730,000

<sup>&</sup>lt;sup>†</sup>Final Maturity.

#### **Notice of Redemption**

Unless DTC consents to a shorter period, for any 2013 Series A Bonds which are in book-entry-only form, the Paying Agent shall notify DTC of the redemption of the 2013 Series A Bonds not less than 20 days prior to the date fixed for redemption or such lesser time as may be permitted under DTC's operational arrangements then in effect, and in the manner required in the city's Letter of Representations to DTC. No other notice shall be required.

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. Interest on any 2013 Series A Bond or 2013 Series A Bonds called for redemption shall cease on the redemption date designated in the notice.

#### **Conditional Notice of Redemption**

Any notice of optional redemption to the Paying Agent or to the Owners may state that the optional redemption is conditioned upon receipt by the Paying Agent of moneys sufficient to pay the redemption price of such 2013 Series A Bonds or upon the satisfaction of any other condition, and/or that such notice may be rescinded upon the occurrence of any other event, and the Master Second Lien Bond Declaration provides that any conditional notice so given may be rescinded at any time before payment of such redemption price if any such condition so specified is not satisfied or if any such other event occurs. The Master Second Lien Bond Declaration requires notice of such rescission or of the failure of any such condition to be given by the Paying Agent to affected Owners of 2013 Series A Bonds as promptly as practicable upon the failure of such condition or the occurrence of such other event.

#### **Effect of Notice of Redemption**

The Master Second Lien Bond Declaration provides that official notice of redemption having been given (other than conditional notices of optional redemption as described above), the 2013 Series A Bonds or portions of 2013 Series A Bonds so to be redeemed shall, on the date fixed for redemption, become due and payable at the redemption price therein specified, and from and after such date (unless the City fails to pay the redemption price) such 2013 Series A Bonds or portion of 2013 Series A Bonds shall cease to bear interest.

#### REFUNDING PLAN

To achieve debt service savings, the City has applied a portion of the proceeds from the sale of the 2013 Series A Bonds to refund certain maturities of the outstanding Refunded Bonds. A portion of the proceeds of the 2013 Series A Bonds will be placed in an irrevocable escrow fund to be used to purchase certain government obligations (referred to herein as "Government Obligations") to be held by U.S. Bank National Association, acting as escrow agent (the "Escrow Agent"). The maturing principal of the Government Obligations, interest earned thereon, and necessary cash balance, if any, will provide funds that are sufficient to pay the principal of, interest on, and any redemption premium on the Refunded Bonds. The Government Obligations, interest earned thereon, and necessary cash balance, if any, will irrevocably be pledged to and held in trust for the benefit of the Owners of the Refunded Bonds by the Escrow Agent, pursuant to the Escrow Deposit Agreement.

The table below shows the Refunded Bonds to be refunded with the 2013 Series A Bonds. The City has refunded all of the Second Lien Water System Revenue Bonds, 2006 Series A. As of the delivery date of the 2013 Series A Bonds, the 2013 Series A Bonds are the only issue of Second Lien Bonds outstanding.

#### **Verification of Mathematical Calculations**

Grant Thornton LLP, a firm of independent public accountants (the "Verification Agent"), will deliver to the City, on or before the Date of Delivery, its verification report indicating that it has verified, in accordance with attestation standards established by the American Institute of Certified Public Accountants, the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Government Obligations, to pay, when due, the maturing principal of, interest on and related call premium requirements of the Refunded Bonds and (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the 2013 Series A Bonds will be excluded from gross income for federal income tax purposes.

The verification performed by the Verification Agent will be solely based upon data, information and documents provided to the Verification Agent by the City and its representatives. The Verification Agent has restricted its procedures to recalculating the computations provided by the City and its representatives and has not evaluated or examined the assumptions or information used in the computations.

Table 1 CITY OF PORTLAND, OREGON Refunding Plan for the Refunded Bonds

CUSIP No.	Refunded	Principal	Redemption	Redemption
736754	Maturity	Amount	Date	Price
First Lien 200	4 Series A Bonds			
DR0	10/1/2013	\$2,965,000	6/4/2013	100%
DS8	10/1/2014	3,100,000	6/4/2013	100%
DT6	10/1/2015	3,240,000	6/4/2013	100%
		\$9,305,000		
First Lien 200	4 Series B Bonds			
EE8	10/1/2014	\$3,040,000	10/1/2013	100%
EF5	10/1/2015	3,160,000	10/1/2013	100%
EG3	10/1/2016	3,310,000	10/1/2013	100%
EH1	10/1/2017	3,480,000	10/1/2013	100%
EJ7	10/1/2018	3,650,000	10/1/2013	100%
EK4	10/1/2019	3,830,000	10/1/2013	100%
EL2	10/1/2020	4,010,000	10/1/2013	100%
EM0	10/1/2021	4,190,000	10/1/2013	100%
EN8	10/1/2022	4,400,000	10/1/2013	100%
EP3	10/1/2023	4,630,000	10/1/2013	100%
		\$37,700,000		
Second Lien 20	006 Series A Bonds	,		
EW8	10/1/2013	\$2,005,000	10/1/2013	100%
EX6	10/1/2014	2,105,000	10/1/2014	100%
EY4	10/1/2015	2,215,000	10/1/2015	100%
EZ1	10/1/2016	2,320,000	10/1/2016	100%
FA5	10/1/2017	2,430,000	10/1/2016	100%
FB3	10/1/2018	2,540,000	10/1/2016	100%
FC1	10/1/2019	2,650,000	10/1/2016	100%
FD9	10/1/2020	2,760,000	10/1/2016	100%
FE7	10/1/2021	2,875,000	10/1/2016	100%
FF4	10/1/2022	3,000,000	10/1/2016	100%
FG2	10/1/2023	3,130,000	10/1/2016	100%
FH0	10/1/2024	3,270,000	10/1/2016	100%
FJ6	10/1/2025	3,415,000	10/1/2016	100%
FK3	10/1/2026	3,565,000	10/1/2016	100%
FL1	10/1/2027	3,725,000	10/1/2016	100%
FM9	10/1/2028	3,895,000	10/1/2016	100%
FN7	10/1/2029	4,070,000	10/1/2016	100%
	**	**	**	**
FP2	10/1/2031	8,700,000	10/1/2016	100%
		\$58,670,000		

#### ESTIMATED SOURCES AND USES OF BOND PROCEEDS

The anticipated sources and uses of proceeds from the 2013 Series A Bonds are itemized in the following table.

# Table 2 CITY OF PORTLAND, OREGON Water Bureau Estimated Sources and Uses of 2013 Series A Bond Proceeds

#### **Sources of Funds**

Par amount of bonds	\$253,635,000.00	
Net original issue premium/(discount)	34,059,363.60	
TOTAL SOURCES	\$287,694,363.60	
Uses of Funds		
Deposit to construction fund	\$161,500,000.00	
Deposit to refunding escrow	114,268,064.99	
Deposit to First Subaccount of		
Second Lien Reserve Account	11,027,175.00	
Underwriter's discount	741,079.29	
Costs of issuance	158,044.32	
TOTAL USES	\$287,694,363.60	

#### **DEBT SERVICE ON THE 2013 SERIES A BONDS**

Table 3 presents the debt service on the 2013 Series A Bonds. Table 4 presents annual debt service on all outstanding First Lien Bonds and the 2013 Series A Bonds.

Table 3
CITY OF PORTLAND, OREGON
Water Bureau
2013 Series A Bonds – Annual Debt Service Requirements

Fiscal Year Ending	n	<b>T</b>	T 4 1
June 30th	Principal	Interest	Total
2014	\$9,395,000	\$9,918,160	\$19,313,160
2015	11,530,000	10,524,350	22,054,350
2016	12,040,000	10,010,100	22,050,100
2017	9,265,000	9,507,475	18,772,475
2018	9,715,000	9,062,975	18,777,975
2019	9,000,000	8,655,100	17,655,100
2020	9,410,000	8,254,850	17,664,850
2021	9,840,000	7,818,600	17,658,600
2022	11,450,000	7,316,350	18,766,350
2023	12,030,000	6,744,350	18,774,350
2024	12,635,000	6,142,725	18,777,725
2025	8,945,000	5,618,225	14,563,225
2026	9,405,000	5,159,475	14,564,475
2027	9,885,000	4,677,225	14,562,225
2028	10,395,000	4,170,225	14,565,225
2029	10,815,000	3,748,125	14,563,125
2030	11,200,000	3,361,900	14,561,900
2031	11,650,000	2,904,900	14,554,900
2032	12,145,000	2,419,000	14,564,000
2033	7,925,000	1,997,600	9,922,600
2034	8,275,000	1,648,250	9,923,250
2035	8,630,000	1,294,800	9,924,800
2036	8,980,000	942,600	9,922,600
2037	9,345,000	576,100	9,921,100
2038	9,730,000	194,600	9,924,600
Total	\$253,635,000	\$132,668,060	\$386,303,060

Table 4 CITY OF PORTLAND, OREGON

#### Water Bureau

Annual Debt Service Requirements – First and Second Lien Bonds (1)

Fiscal Year			
Ending	Outstanding	Outstanding	Total
June 30	First Lien Bonds (2)	Second Lien Bonds (3)	<b>Debt Service</b>
2014	\$26,415,150	\$19,313,160	\$45,728,310
2015	23,454,600	22,054,350	45,508,950
2016	23,449,425	22,050,100	45,499,525
2017	27,020,600	18,772,475	45,793,075
2018	27,021,725	18,777,975	45,799,700
2019	28,145,288	17,655,100	45,800,388
2020	28,137,609	17,664,850	45,802,459
2021	28,143,894	17,658,600	45,802,494
2022	20,359,866	18,766,350	39,126,216
2023	20,359,519	18,774,350	39,133,869
2024	20,361,700	18,777,725	39,139,425
2025	20,356,769	14,563,225	34,919,994
2026	20,356,569	14,564,475	34,921,044
2027	20,355,275	14,562,225	34,917,500
2028	20,356,981	14,565,225	34,922,206
2029	20,355,731	14,563,125	34,918,856
2030	20,360,763	14,561,900	34,922,663
2031	20,354,825	14,554,900	34,909,725
2032	20,356,306	14,564,000	34,920,306
2033	20,356,519	9,922,600	30,279,119
2034	20,353,463	9,923,250	30,276,713
2035	14,957,300	9,924,800	24,882,100
2036	10,136,963	9,922,600	20,059,563
2037	4,481,050	9,921,100	14,402,150
2038		9,924,600	9,924,600
TOTAL	\$506,007,888	\$386,303,060	\$892,310,947

#### Notes:

- Totals may not foot due to rounding.
   Excludes debt service on First Lien Refunded Bonds.
- (3) Excludes debt service on Second Lien Refunded Bonds and includes debt service on 2013 Series A Bonds.

#### PROVISIONS OF THE 2013 SERIES A BONDS

This section describes key provisions of the Master Second Lien Bond Declaration and the First Supplemental Declaration related to the 2013 Series A Bonds.

#### SPECIAL OBLIGATION; PLEDGE OF NET REVENUES

The 2013 Series A Bonds are special obligations of the City that are payable solely from the amounts specifically pledged to pay those Second Lien Bonds in the Master Second Lien Bond Declaration and First Supplemental Declaration. In the Master Second Lien Bond Declaration, the City has pledged the Net Revenues of the Water System that are available for deposit in the Second Lien Bond Account and the amounts deposited in the First Subaccount of the Second Lien Bond Reserve Account to pay the 2013 Series A Bonds. The liens of the pledges that secure the 2013 Series A Bonds are subordinate to the liens that secure 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 2013 Series A 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 2013 Series A Bonds. No recourse may be had against any funds or assets of the City to enforce payment of any amounts owing under or with respect to the 2013 Series A Bonds except the amounts specifically pledged to pay those Bonds in the Master Second Lien Bond Declaration and the First Supplemental Declaration.

See the definition of "Annual Second Lien Bond Debt Service" in Appendix A for the rules that apply to calculating Annual Second Lien Bond Debt Service for different types of Second Lien Bonds, including Federal Subsidy Obligations, Variable Rate Obligations, Balloon Payments, and Parity Second Lien Obligations subject to a Parity Agreement for Exchange of Interest Rates.

Under ORS 287A.310, 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 Oregon Revised Statutes pursuant to which the 2013 Series A Bonds are being issued authorize such a pledge.

#### SECOND LIEN BOND RATE COVENANT

The City covenants for the benefit of the Owners of the Second Lien Bonds, including the 2013 Series A Bonds, that it will establish and maintain rates and charges in connection with the operation of the Water System which are sufficient to permit the City to pay all Operating Expenses and all lawful charges against the Net Revenues; 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 Junior Lien Obligations Account; and to pay any franchise fees or similar charges imposed by the City on the Water 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 Water System which, when combined with other Gross Revenues, 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; and
- 2. that it shall charge rates and fees in connection with the operation of the Water System which, when combined with other Gross Revenues, are adequate to generate Stabilized Net Revenues each Fiscal Year that are at least equal to one hundred ten percent (110.00%) of Combined Annual Debt Service due in that Fiscal Year.

The Master Second Lien Bond Declaration describes how the tests in 1. and 2. above are met in connection with the use of Balloon Indebtedness, Variable Rate Obligations, Capital Charges, certain leases, and Second Lien Bonds that are eligible for Federal Subsidies. See Sections 5.2. through 5.6. in the Master Second Lien Bond Declaration in Appendix A.

The City shall determine whether it complied with the rate covenants for each Fiscal Year not later than 90 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 180 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 of Operating Expenses for the partial year made on an annualized basis).

#### **FUNDS AND ACCOUNTS**

The City covenants to deposit the Gross Revenues in the Water Enterprise Fund.

The First Lien Bond Ordinance establishes the following accounts in the Water Enterprise Fund:

- Revenue Bond Account: Amounts in this account may be used only to pay First Lien Bonds.
- Revenue Bond Reserve Account: This account is divided into subaccounts for different Series of First Lien Bonds. Amounts in each subaccount may be used only to pay the Series of First Lien Bonds secured by that subaccount, and only if amounts in the Revenue Bond Account and Net Revenues available in the Water Enterprise Fund are insufficient to pay that Series.
- Subordinate Obligations Account: Amounts in this account may be used to pay Subordinate Obligations and are required to
  be used to pay First Lien Bonds if amounts in the Revenue Bond Account and Revenue Bond Reserve Account are not
  sufficient.
- Charter General Obligation Bond Account: Amounts in this account may be used to pay general obligation bonds of the City issued under Section 11-103 of the City Charter to finance the Water System. The City has no current plans to issue general obligation bonds under the authority provided by the City Charter and no such bonds are currently outstanding.
- *Capital Renewal Account*: Amounts in the Capital Renewal Account may be used solely to pay for capital costs of the Water System, including costs of repairing, replacing, improving and expanding the Water System.

The Master Second Lien Bond Declaration establishes the following accounts in the Subordinate Obligations Account of the Water Enterprise Fund:

- Second Lien Bond Account. Amounts in the Second Lien Bond Account shall be used only to pay principal of, premium and interest on, or to defease Second Lien Bonds.
- Second Lien Bond Reserve Account. Amounts credited to the Second Lien Bond Reserve Account shall be used only to secure Second Lien Bonds. The City may create one or more subaccounts in the Second Lien Bond Reserve Account to secure one or more Series of Second Lien Bonds and covenant to make deposits into any subaccounts it creates. However, the City is not obligated to create any subaccounts in the Second Lien Bond Reserve Account except the First Subaccount, and it is not obligated to secure any Series of Second Lien Bonds except the 2013 Series A Bonds with a subaccount in the Second Lien Bond Reserve Account. See "—SECOND LIEN BOND RESERVE ACCOUNT AND THE FIRST SUBACCOUNT" below.
- Junior Lien Obligations Account. Amounts in this account may be used to pay Junior Lien Obligations, if any.
- Rate Stabilization Account. As long as Second Lien Bonds are Outstanding, Net Revenues may be transferred to the Rate Stabilization Account at the option of the City as permitted by 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 ACCOUNT" below.)

#### APPLICATION OF GROSS REVENUES

As long as any 2013 Series A Bonds remain issued and outstanding, the Master Second Lien Bond Declaration provides that Gross Revenues shall be used solely to pay the following amounts in the following order of priority:

- To pay Operating Expenses of the Water System which are then due;
- To make all transfers required by the First Lien Bond Ordinance, including to pay debt service on First Lien Bonds, to fund required debt service reserves for First Lien Bonds, and to pay any rebates or penalties for First Lien Bonds;
- To make transfers of Net Revenues 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 Declaration;
- On the first day of each month following a Valuation Date on which the balance in a subaccount of the Second Lien Bond Reserve Account is determined to be less than its Reserve Requirement, to transfer to that subaccount of the Second Lien Bond Reserve Account the amount of Net Revenues required by the provisions creating that subaccount in the Second Lien Bond Reserve Account:
- If the City reserves the right to fund the Reserve Requirement for a subaccount in the Second Lien Bond Reserve Account in installments, to make transfers of Net Revenues required in the amounts and on the schedule specified in proceedings authorizing the Second Lien Bonds that are secured by that subaccount;
- 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;
- To make payments to the Junior Lien Obligations Account as specified in any proceedings authorizing Junior Lien Obligations;
- To transfer to the Charter General Obligation Bond Account an amount sufficient to pay all principal, interest and premium, if any, due on City general obligation bonds issued pursuant to Section 11-103 of the City Charter as specified in the First Lien Bond Ordinance:
- To pay any franchise fees, utility license fees, and similar charges imposed by the City on the Water System or its operations;
- While First Lien Bonds are Outstanding, to make transfers of Net Revenues to the Capital Renewal Account in the amounts
  described in the First Lien Bond Ordinance.

After all transfers and payments having a higher priority under this section have been made, Net Revenues may be applied for any other lawful purpose, including transfers to the Rate Stabilization Account. See "—RATE STABILIZATION ACCOUNT" herein.

#### RATE STABILIZATION ACCOUNT

Under the Master Second Lien Bond Declaration, the City has established the Rate Stabilization Account. Amounts credited to the Rate Stabilization Account may be withdrawn at any time and used for any purpose for which the Gross Revenues may be used. Deposits to the Rate Stabilization Account for a Fiscal Year shall decrease Stabilized Net Revenues for that Fiscal Year and withdrawals from the Rate Stabilization Account in a Fiscal Year shall increase Stabilized Net Revenues for that Fiscal Year. The City may adjust deposits to and withdrawals from the Rate Stabilization Account for a Fiscal Year at any time prior to the date on which the audit for that Fiscal Year is finalized. It is the intent of the City to use such deposits and withdrawals to smooth the flow of Net Revenues of the Water System on a year-to-year basis to minimize the size of required Water System rate increases each year. See "FINANCIAL POLICY AND PLANNING STANDARDS—FINANCIAL OPERATIONS POLICIES—Rate Stabilization Account" herein.

#### SECOND LIEN BOND RESERVE ACCOUNT AND THE FIRST SUBACCOUNT

#### Creation of Subaccounts and Establishment of the Reserve Requirement

The City has created the Second Lien Bond Reserve Account and may create one or more subaccounts in the Second Lien Bond Reserve Account to secure one or more Series of Second Lien Bonds. The City is not obligated to create any subaccounts in the Subordinate Lien Bond Reserve Account except the First Subaccount as described below, and it not obligated to secure any Series of Second Lien Bonds except the 2013 Series A Bonds with a subaccount in the Second Lien Bond Reserve Account.

When a subaccount in the Second Lien Bond Reserve Account is created, the City shall determine whether the subaccount will secure one or more Series of Second Lien Bonds. If the City creates a subaccount in the Second Lien Bond Reserve Account, the City shall, when it issues the first Series of Second Lien Bonds that is secured by that subaccount: a) establish the Reserve Requirement for that subaccount; b) pledge amounts credited to that subaccount to pay the Bonds that are secured by that subaccount; c) determine if the Reserve Requirement for that subaccount may be funded with Reserve Sureties; and (d) determine the requirements for those Reserve Sureties, and the valuation and replenishment provisions that apply to that subaccount.

#### **First Subaccount**

The City has created the First Subaccount in the Second Lien Bond Reserve Account, which secures the 2013 Series A Bonds and any subsequent Series of Second Lien Bonds to which the amounts in the First Subaccount are subsequently pledged. The City covenants to fund and maintain a balance in the First Subaccount equal to the First Subaccount Reserve Requirement. The First Subaccount Reserve Requirement is generally equal to the lesser of (a) one-half of the greatest amount of Annual Second Lien Bond Debt Service on First Subaccount Bonds in any Fiscal Year or (b) the First Subaccount Reserve Requirement in effect immediately 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 for that Series under Section 148(d) of the Internal Revenue Code. Amounts credited to the First Subaccount shall be used only to pay principal, interest and premium on the 2013 Series A Bonds and any other Series of Second Lien Bonds that are secured by the First Subaccount, and only if amounts in the Second Lien Bond Account are not sufficient to make those payments. The First Subaccount, and Declaration describes how the First Subaccount is replenished if the balance in this subaccount falls below the First Subaccount Reserve Requirement. See Section 4.E. of the First Supplemental Bond Declaration in Appendix B. On the date of Closing of the 2013 Series A Bonds, the First Subaccount Reserve Requirement is \$11,027,175.00, which is one-half of the greatest amount of Annual Second Lien Bond Debt Service due on the 2013 Series A Bonds.

The City expects to fund the First Subaccount with cash or other investments. However, the City reserves the right to replace cash and investments in the First Subaccount with Reserve Sureties at any time.

#### FIRST LIEN BOND RESERVE ACCOUNT

The City also maintains debt service reserves for First Lien Bonds. The Revenue Bond Reserve Account for First Lien Water Revenue Bonds is fully funded with a combination of cash and "Reserve Credit Facilities" as shown in the table below.

The First Lien Bond Ordinance states that a Reserve Credit Facility is a Credit Facility issued for the purpose of funding, in lieu of cash, all or any portion of the Reserve Requirement, under which the Credit Provider agrees to unconditionally provide the City with funds to transfer to the Revenue Bond Reserve Account if amounts are required to be withdrawn from that account for deposit in the Revenue Bond Account. The First Lien Bond Ordinance defines a "Credit Facility" as "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 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 Bonds secured by the Credit Facility." The City is not obligated to replace the Credit Facility in the event that the rating of the Credit Facility provider is downgraded below one of the two highest rating categories subsequent to the issuance of the bonds to which the Credit Facility applies.

#### Table 5 CITY OF PORTLAND, OREGON Reserve Subaccounts for First Lien Bonds (1)

Series	Date of Issue	Maturity Date	Surety Provider/ Cash	Surety Face Value/ Cash Amount	Insurer's Rating (Moody's)
2004 Series B (2)	5/6/2004	10/1/2013	AGM (3)	\$5,258,229	A2
2006 Series B	9/21/2006	10/1/2020	National (4)	\$4,400,000	Baa2
2008 Series A	8/7/2008	11/1/2033	Cash	\$5,398,544	n/a
2010 Series A	2/11/2010	5/1/2035	Cash	\$4,826,425	n/a
2011 Series B	3/22/2011	5/1/2036	Cash	\$5,659,388	n/a
2012 Series A	8/2/2012	4/1/2037	Cash	\$4,482,938	n/a

#### Notes:

- (1) As of the delivery date of the 2013 Series A Bonds. All maturities of the Water System Revenue Bonds, 2004 Series A are refunded with proceeds of the 2013 Series A Bonds. As a result, the AGM surety policy associated with the refunded 2004 Series A Bonds is not shown in this table. Prior to the issuance of the 2013 Series A Bonds, the face value of the 2004 Series A surety policy was \$2,990,000.
- (2) The maturity date of 10/1/2013 for the Water System Revenue Bonds, 2004 Series B reflects the refunding of the 2014 through 2023 maturities of those bonds.
- (3) The City purchased Reserve Credit Facilities from FSA for the Water System Revenue and Refunding Bonds, 2004 Series A and Series B. In July 2009, Assured Guaranty acquired FSA and the surety bond provider for these bonds is now Assured Guaranty Municipal Corp. ("AGM").
- (4) Upon the issuance of the First Lien Water System Revenue Bonds, 2006 Series B, the City purchased a Reserve Credit Facility from MBIA Insurance Corporation ("MBIA") to fund the Reserve Requirement. Since the date of issue, MBIA has been restructured. The surety provider for these bonds is now National Public Finance Guarantee Corporation ("National").

Source: City of Portland.

#### PARITY OBLIGATIONS

The City may issue Parity Second Lien Obligations to provide funds for any purpose relating to the Water System, but only if no Event of Default under the Master Second Lien Bond Declaration or any Supplemental Declaration has occurred and is continuing; the City has made all transfers required by the First Lien Bond Ordinance and the Master Second Lien Bond Declaration; and there has been filed with the City <u>either</u>:

#### 1. A certificate of the Debt Manager stating that:

- a. the Net Revenues (adjusted as provided below) for the Base Period were not less than one hundred percent (100.00%) 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; and
- b. the Stabilized 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 and the Adjusted Stabilized Net Revenues 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 percent (100.00%) 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. concluding that the respective amounts of Adjusted Stabilized Net Revenues in each of the Fiscal Years described in 2.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;
- d. stating the projected amount of the Adjusted Net Revenues and the Adjusted Stabilized 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;
- e. concluding that this amount of Adjusted Net Revenues described in 2.d. above is at least equal to one hundred percent (100.00%) 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; and,
- f. concluding that this amount of Adjusted Stabilized Net Revenues described in 2.d. 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 and Stabilized Net Revenues may be adjusted for the purposes described in paragraph 1. above by adding any Net Revenues the Debt Manager calculates the City would have had during the Base Period because of increases in Water 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 the purposes described in paragraph 2. above, Adjusted Net Revenues shall be computed by adjusting the Net Revenues for the Base Period in any of the ways described in Section 6.3 of the Master Second Lien Bond Declaration. Adjusted Stabilized Net Revenues shall be computed by adjusting the Net Revenues for the Base Period in any of the ways described in Section 6.4 of the Master Second Lien Bond Declaration.

The Master Second Lien Bond Declaration describes how the tests in 1. and 2. above are met in connection with the use of Federal Subsidy Obligations, Balloon Payments and Variable Rate Obligations. See Sections 6.6. through 6.8. in the Master Second Lien Bond Declaration in Appendix A.

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.

An Agreement for Exchange of Interest Rates may be a Parity Agreement for Exchange of Interest Rates and a Parity Second Lien Obligation if the obligation to make City Payments under the Agreement for Exchange of Interest Rates qualifies as a Parity Second Lien Obligation under the Master Second Lien Bond Declaration, after the Reciprocal Payments under the Agreement for Exchange of Interest Rates are applied to reduce Combined Annual Debt Service. Any Parity Agreement for Exchange of Interest Rates shall clearly state that it is a Parity Agreement for Exchange of Interest Rates and has qualified as a Parity Second Lien Obligation under the Master Second Lien Bond Declaration. In addition, the City may replace a Parity Agreement for Exchange of Interest Rates with another Parity Agreement for Exchange of Interest Rates without qualifying the replacement Agreement for Exchange of Interest Rates if the replacement does not increase the Combined Annual Debt Service 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.

#### JUNIOR LIEN OBLIGATIONS

The City may issue Junior Lien Obligations only if the Junior Lien Obligations are payable solely from amounts permitted to be deposited in the Junior Lien Obligations Account, and the Junior Lien 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 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 and the Master Second Lien Declaration.
- 2. Maintain records relating to the operation of the Water System and all City funds and accounts in accordance with generally accepted accounting principles, and to have records to be audited annually, and the audit report made available for the inspection of First Lien Bond Owners and Second Lien Bond Owners.
- 3. For the benefit of First Lien Bond Owners, not issue First Lien Bonds or other obligations having a claim superior to the claim of the First Lien Bonds upon the Net Revenues.
- 4. For the benefit of Second Lien Bond Owners, not issue obligations which has a lien on the Net Revenues that is superior to the lien of the Second Lien Bonds except for the First Lien Bonds and obligations to pay the Operating Expenses.
- 5. Not amend the First Lien Bond Ordinance unless the City finds that the amendments will not materially and adversely affect the right 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 First Lien Bond Ordinance or to prevent the City from incorporating the amendments described in Section 6 of the City's Bond Declaration for the City's First Lien Water System Revenue Bonds, 2012 Series A.
- 6. Promptly deposit the Gross Revenues into the funds and accounts as required by the First Lien Bond Ordinance and the Master Second Lien Bond Declaration.
- Operate the Water System in a 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 Water System.
- 8. Cause the Water System to be maintained, preserved, reconstructed, expanded and kept in good repair, working order and condition.
- 9. Not enter into any new agreement to provide Water System products or services at a discount from published rate schedules or to provide free Water System products or services (except in case of fire suppression and emergencies).
- 10. Self insure the Water System, or purchase insurance on the Water System of the sort customarily maintained by entities such as the City with respect to properties like the Water System, and that it will apply the net proceeds of insurance covering Water System damage to repair or rebuild the Water System, or to the redemption of the First Lien Bonds and to the extent available after such payment, to the payment or redemption of the Second Lien Bonds on a pro rata basis.
- 11. Not sell, mortgage, lease or otherwise dispose of or encumber all or any portion of the Water System except as specifically permitted by the First Lien Bond Ordinance and the Master Second Lien Bond Declaration.

#### THE WATER SYSTEM

This section provides an overview of the Water System's water sources, storage and distribution, treatment, operations, and hydroelectric power generation.

#### **GENERAL INFORMATION**

The Water Bureau (the "Bureau") has supplied domestic water to residents of the Portland area for more than 100 years. The Bureau is the largest supplier of domestic water in Oregon. About 935,000 people, almost one-quarter of the state's population, are served by the Bureau on a wholesale and retail basis within its 225 square mile service area. The Bureau delivered about 33 billion gallons of water to its customers in Fiscal Year ("FY") 2011-12. Average annual daily water production is close to 100 million gallons ("MG"), but could exceed 180 MG on peak days.

#### SOURCES OF SUPPLY

#### The Bull Run Watershed

The primary source of water supply comes from the 65,000-acre Bull Run Watershed (the "Watershed"), which lies 26 miles east of Portland in the Mt. Hood National Forest. A depiction of the water supply system is shown on the following page. Ninety-five percent of the lands within the Watershed are within the jurisdiction of the United States Forest Service (the "USFS") which has primary land management responsibilities for the area. The City owns the remaining five percent of those lands. The elevation of the Watershed ranges from 750 to 4,700 feet above sea level.

The Bull Run Watershed Management Unit, a 95,580-acre administrative boundary that encompasses the Watershed, is located within the Mt. Hood National Forest and administered by the USFS. The City and the USFS jointly manage this land under the statutory authority of United States Public Law ("P.L.") 95-200. A combination of three major administrative and legislative directives issued since 1994 have significantly enhanced federal water quality protection for the Watershed. These measures include:

- the 1994 Northwest Forest Plan, which established standards and guidelines for protecting terrestrial species dependent on old growth forest conditions (including the northern spotted owl) as well as protection for aquatic habitat;
- the 1996 Oregon Resources Conservation Act, an amendment to P.L. 95-200, which eliminates tree cutting within the Bull Run physical drainage area (except where it serves or enhances the Water System); and
- the 2001 Little Sandy Protection Act, an amendment to P.L. 95-200, which expanded the Bull Run Management Unit boundary by 2,550 acres and extended tree cutting prohibitions to the entire 95,580 acre unit.

In addition to these federal protections, Portland established City Code protections in February 2010 that implement the same treecutting restrictions in federal law for City-owned lands within and adjacent to the Bull Run Watershed Management Unit while also prohibiting any future non-drinking water related development within the Watershed.

The Bull Run River is a very productive water source. Water is replenished by rain and snowmelt at an average annual daily flow rate of about 493 million gallons per day ("MGD"). Portland averages about 37 inches of rain per year while the Watershed averages about 135 inches per year. Average annual runoff at the mouth is about 552,000 acre-feet, which is equivalent to a water depth of 102 inches spread uniformly over the Watershed. The Watershed's managed water storage capacity, including Reservoirs 1 and 2, totals 16.9 billion gallons of water with usable storage of approximately 9.9 billion gallons. The seven billion gallon difference is the quantity of minimum storage that must remain in Reservoirs 1 and 2 to reliably meet water quality standards during drawdown and refill of the reservoirs. The 16.9 billion gallon total storage capacity of Reservoirs 1 and 2 is a small percentage of the estimated 180 billion gallons of annual runoff in the Watershed. The result is that the reservoirs are full for most of the year with the exception of the time period from mid-summer to mid-fall when the reservoirs are drawn down to supply higher drinking water demands and inflows reach their annual minimum. In Spring, dam gates on Reservoir 1 are lowered after the last anticipated major storm event for the season to capture an additional one billion gallons of storage prior to drawdown.

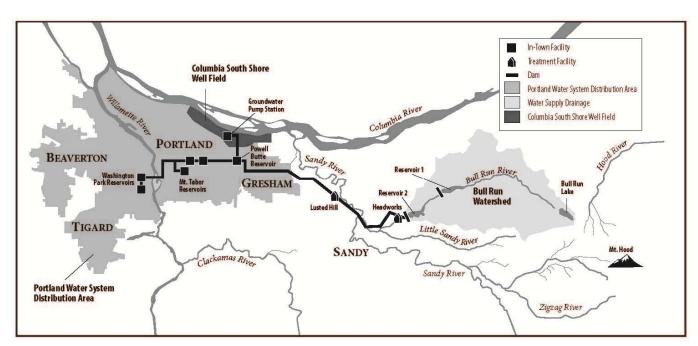
The Watershed currently remains an unfiltered water source by continuously meeting the unfiltered criteria established by the U.S. Environmental Protection Agency (the "EPA") under the Surface Water Treatment Rule (the "SWTR"). In March 2012, a Final Order was issued by the Oregon Health Authority granting the City a variance to the treatment requirements of the Long Term 2 Enhanced Surface Water Treatment Rule (the "LT2 Rule"). Under the terms of the variance, the City is permitted to continue to

operate the Watershed without treatment to address *Cryptosporidium*. (See "REGULATORY ENVIRONMENT—CURRENT AND EMERGING REGULATORY ISSUES" herein.)

Bull Run Lake is a natural lake located at the headwaters of the Bull Run River near the eastern boundary of the Watershed, is the highest elevation water body in the Watershed. Provisions of a 1997 USFS easement restrict the available capacity of Bull Run Lake. Terms of this easement limit the volume available, the timing of use, and the mitigation requirements for releases that result in the lake not refilling by the following spring. In 1998, the City obtained "certification" of the easement from the State of Oregon under §401 of the Clean Water Act. The restrictions on the capacity of Bull Run Lake are tied directly to available water in the lake which varies from year to year due to the natural hydrology of the lake and occasional use by the Bureau. Bull Run Lake was last used for supply in 2000. The Bureau's seasonal *Water Supply Augmentation and Contingency Plan* ("Summer Supply Plan") includes an allotment of up to 0.7 billion gallons from Bull Run Lake under normal circumstances, and up to an additional 2.9 billion gallons if supply and demand conditions warrant curtailment. This variable useable storage capacity at Bull Run Lake is supplemental to the 9.9 billion gallons of capacity contained in Reservoirs 1 and 2. (See "WATER SYSTEM OPERATIONS—Water Supply Operations" herein for additional information about the Summer Supply Plan.)

Fourteen miles downstream from Bull Run Lake on the Bull Run River is Reservoir 1, also known as Lake Ben Morrow, which was created by the construction of Bull Run Dam 1 in 1929. Bull Run Dam 2, constructed in 1962, is located on the Bull Run River four miles downstream from Bull Run Dam 1, creating Reservoir 2. Reservoir 1 and Reservoir 2 have a total storage capacity of 16.9 billion gallons. Useable capacity limits in both of these man-made impoundments are the result of drawdown restrictions designed to help ensure that turbidity levels remain acceptable and that the Bureau does not violate its current SWTR exemption. The drawdown restrictions limit the elevations to which Reservoir 1 and 2 can be lowered by withdrawals. The net effect is a total combined minimum storage restriction of seven billion gallons for the reservoirs. Through regular monitoring and planning during the summer draw down period, the Bureau manages the elevation levels of the reservoirs to remain at or above the minimums by supplementing drinking water supply with groundwater in years when that proves necessary. The current SWTR filtration exemption requires that the Bureau maintain the turbidity of Bull Run water below the standard of 5 Nephelometric Turbidity Units ("NTU"). The major strategy the Bureau uses to avoid violating the turbidity standard is to shut down the Watershed supply before the 5 NTU standard is reached and switch to the Columbia South Shore Well Field (the "CSS Well Field") back up supply. (See "The CSS and Powell Valley Well Fields" below.) A secondary use for the CSS Well Field is in a supplementary capacity during the summer and early fall to maintain acceptable remaining storage levels in the Bull Run reservoirs. Between 2000 and 2012, groundwater provided approximately 3.5 percent of total demand.

Dam 1, Dam 2, and their two associated reservoirs are operated and maintained under a permit from the USFS as well as a Federal Energy Regulatory Commission ("FERC") license. The USFS special use permit, which was issued in 1966, requires consultation with USFS staff for operation and maintenance activities. The special use permit for the reservoirs does not have an expiration date, but is subject to reevaluation by the USFS at its discretion. The FERC license regulates the timing and amount of water that can be released for hydropower purposes only.



#### Bull Run Co-Management with the United States Forest Service

Historically, USFS timber harvest revenues have funded water quality monitoring, road maintenance, and general management activities in the Watershed. However, the 1993 cessation of timber harvests in the Watershed has significantly reduced USFS financial resources and services. To ensure that critical maintenance, monitoring and management activities continue to be adequately addressed, the USFS and the Bureau have updated a joint management agreement describing the roles and responsibilities of each with respect to land management, resource protection and operations, and maintenance within the Bull Run Watershed Management Unit. The key Bureau criterion for these discussions has been to achieve clarity of roles and expectations so the Bureau can effectively develop a work plan and budget appropriate financial and staffing resources. In an effort to reduce road maintenance costs and protect water quality, the Bureau and the USFS have agreed to reduce the paved road network in the management unit by approximately 50 percent. As of September 2009, all of the nonessential roads in the water supply drainage were decommissioned and the USFS has prepared a plan that prescribes decommissioning treatments for the remaining nonessential roads within the surrounding management unit. The Bureau has assumed responsibility for the maintenance of the remaining road system.

The agencies are also discussing a potential land exchange that would result in the Bureau obtaining ownership of federal lands immediately surrounding the two water storage reservoirs, the conduit right-of-way and the road network necessary to maintain the drinking water system and provide fire fighting access. In exchange, the Bureau would transfer to the USFS scattered land parcels it owns that are located farther away from the reservoirs. The purpose of this land exchange is to allow the Bureau to own contiguous parcels of property where Bureau facilities are located. The land exchange would also provide the Bureau with increased regulatory certainty on permitting issues associated with water storage and transmission in the Watershed. Initiated by a joint agreement between Portland and the federal government in 2010, the federal land exchange process is expected to be completed in the next two years.

The Bureau coordinates with the USFS and the Oregon Department of Forestry to ensure that the Watershed remains a top priority for wildland fire protection in the region. A joint fire management plan is updated annually among the entities. The Bureau conducts fire patrols during high fire-danger conditions and works closely with its state and federal counterparts to support their lead role in detection and suppression efforts.

#### The CSS and Powell Valley Well Fields

#### The CSS Well Field

The CSS Well Field, completed in the 1980s, is the second largest developed water supply in Oregon after the Watershed. The intent of developing this groundwater supply was to provide both (1) an emergency backup source of water for the Watershed supply, and (2) a means to augment the Watershed supply source to help meet peak summer seasonal and daily demands. The Bureau currently operates the CSS Well Field each summer season to ensure that groundwater equipment is operational and to address maintenance needs.

The CSS Well Field, which includes twenty-seven wells, is located along the Columbia River east of the Portland International Airport. These operational wells have an initial total capacity of over 100 MGD available for use and a long-term total capacity of approximately 85 MGD. The City has an estimated additional 200 MGD of undeveloped water rights capacity in the CSS Well Field. In 2009, the City obtained final orders from the State of Oregon Water Resources Department for extensions to the four primary water rights in the CSS Well Field to 2085. The Bureau anticipates constructing the necessary infrastructure to bring some of its undeveloped well field capacity online over time as necessary to meet long-term growth in water demand, which has been detailed in a State-required Water Management and Conservation Plan. However, there are no projects in the Five-Year Capital Improvement Plan to create additional well field capacity.

Based on independent and Bureau laboratory certified tests, the CSS Well Field produces water that consistently meets or surpasses all health-based drinking water quality standards set by state and federal regulations. Approximately 65 percent of the CSS Well Field supply capacity comes from deep aquifers that are naturally protected from shallow near-surface chemical spills or contamination by laterally continuous fine-grained confining units up to several hundred feet thick. An additional 35 percent of the CSS Well Field supply capacity comes from a highly productive shallow aquifer that is located within a regional park and is therefore protected from commercial or industrial development. Groundwater produced from the CSS Well Field is treated with hypochlorite and ammonia for disinfection and has the capability of having the pH raised to meet current Lead and Copper Rule requirements.

In recognition of the need to protect the CSS Well Field resources, the City has had an active Wellhead Protection Program in place since 1987. In July 2003, updates to the City's Wellhead Protection Program were codified by the Portland City Council. The current Wellhead Protection Program was developed cooperatively with the adjacent cities of Fairview and Gresham, along with input from local residents and representatives of commercial and industrial businesses located within the CSS Well Field "footprint." Within the geographic area covered by the groundwater protection zoning overlay, the Wellhead Protection Program includes regulations on the use, handling, storage and transport of certain chemicals; educational outreach, technical assistance, and an inspection program for businesses; and recommended best management practices for spill control and storm water management. This program's overall goal is to protect groundwater resources by preventing chemical spills that could seep into the ground and adversely affect groundwater quality.

The Bureau operates an extensive groundwater monitoring program, including about 100 monitoring wells, to protect the CSS Well Field. The Bureau's monitoring program consists of the ongoing routine monitoring of groundwater levels and groundwater quality in multiple aquifers throughout the CSS Well Field footprint and adjacent areas. A state-of-the-art computerized groundwater flow model has also been developed by the Bureau to assist in simulating and predicting groundwater flow in multiple aquifers under both static and pumping well field conditions.

To further ensure that the City's wells continue to produce high-quality drinking water into the future, the Bureau works cooperatively with the Oregon Department of Environmental Quality (the "DEQ") to identify, assess and clean up soil and groundwater contamination sites in and near the CSS Well Field. Although a few groundwater contamination sites are present in and near the CSS Well Field, none of the City's production wells are affected. By agreement, the DEQ expedites the assessment and clean-up of sites in order to minimize potential risks to the CSS Well Field. The cooperative agreement with the DEQ, coupled with the City's Wellhead Protection and groundwater monitoring programs, are the cornerstones of the Bureau's strategy to protect the CSS Well Field resources.

#### Powell Valley Well Field

The Powell Valley well system acquired by the City in 2005 includes six wells in two aquifers. The City currently has ample water supply to serve its customers and does not need to utilize these wells. Therefore, these wells are currently designated as an emergency supply source. Various capital projects are being evaluated to improve booster pump capacity and treatment and build new mains to fully integrate these wells into the Water Bureau supply system. Currently no capital projects related to these wells are included in the Bureau's Five-Year Capital Improvement Plan.

#### **Other Supply Issues**

#### Water Conservation

Programs that encourage efficient use of water provide, albeit indirectly, another source of supply. The July 2010 Water Management and Conservation Plan, required by the groundwater right extension process mentioned above, describes the Bureau's water efficiency and water curtailment programs. Water efficiency education and technical assistance programs are provided in the Bureau's retail service area for both residential customers as well as for industrial, commercial and institutional customers. (See also "WATER SYSTEM OPERATING AND FINANCIAL INFORMATION—RATES AND RATE SETTING" herein.)

#### Climate Change

The Bureau has been studying the potential effects of climate change on the Bull Run water supply for more than a decade. A preliminary analysis of potential impacts was published in 2002 by researchers at the University of Washington ("UW"). Although the details of the 2002 report are now out-of-date, the UW report and other related reports on the Pacific Northwest region indicate the potential for warmer and drier summers, lower summer streamflows, and more intense winter storms.

Two key characteristics increase the resilience of the Portland water supply to climate change impacts. The Watershed is situated at relatively low elevations in the "transient snow zone." Although snowpack is expected to decrease significantly over time in the Pacific Northwest region, the Bull Run water supply relies on snowpack for only a minor portion of spring season streamflows. In addition, the Bureau's previous investment in the CSS Well Field and the Bureau's ability to expand the well field capacity over time provide a robust supplemental supply to offset impacts of climate change on the Bull Run streamflow or increases in summer season water demand.

The Bureau is currently working with the University of Idaho and UW to develop a hydrologic model for the Watershed that will be capable of interacting with downscaled global climate model data. The Bureau is developing the model with the intent of evaluating various climate change scenarios and updating the preliminary conclusions provided in the earlier UW study.

#### STORAGE AND DISTRIBUTION

Bull Run water is supplied by gravity from the Watershed's primary intake structure located at the Headworks facility. Water is conveyed from Headworks to Portland through three large-diameter pipelines to the 50 MG terminal storage reservoir on Powell Butte. Over the last two miles, the three pipelines are combined with the groundwater system intertie pipeline. Conduit vulnerability to natural and man-made hazards has been reduced along the 20-mile pipeline route to the Powell Butte Reservoir by strengthening bridges or burying exposed sections. The interties significantly reduce the quantity of water between shutdown locations and provide the capability of remotely redirecting flows in case of an emergency such as a pipe breaking or leaking. The interties are located in the Watershed at Larson's Intertie, and just before the ammoniation/corrosion treatment facility at Hudson's Intertie and along 162nd Avenue in Portland. A recently completed project mitigated potential flood and landslide damage for conduits 2 and 4 at the Sandy River crossing. These two conduits are now buried deep below the river bed and can produce enough Bull Run supplied water for current summer demands even if conduit 3 were lost in an event. Conduit operations are modified seasonally to produce the best water quality for given demand scenarios.

The Bureau's in-town Water System storage consists of six large terminal storage reservoirs and 58 in-service smaller standpipes and tanks, with a total storage capacity of over 300 MG. Water flows from the Powell Butte Reservoir to the other five terminal reservoirs or directly to west side wholesale customers through the Washington County Supply Line. Secondary disinfection treatment facilities are located at the Mt. Tabor Park and Washington Park terminal reservoirs. These facilities are designed to add chlorine to ensure that an accurate chloramination ratio is maintained. The LT2 Rule requires the City to change how its open finished drinking water reservoirs are utilized, managed, and operated. (See "REGULATORY ENVIRONMENT—CURRENT AND EMERGING REGULATORY ISSUES" herein.)

There are six active Willamette River crossings (including the Washington County Supply Line) that supply the Bureau's west side customers. Pumping facilities supply all areas higher in elevation than the terminal storage reservoirs. The transmission and distribution system is constructed of cast iron, ductile iron, steel, and copper piping and is in good condition with an expected future life of 50 to 200 years. Valves are located in the transmission and distribution piping to allow control during repairs, maintenance, or improvements. Fire hydrants are located on the distribution piping network to provide fire protection to Water System customers. All customers are metered. The distribution system also includes drinking and decorative fountains for use by the public.

The Bureau's supply and distribution system is constantly monitored and controlled via the Water Control Center located at the Bureau's Interstate facility. The original computer-based Supervisory Control and Data Acquisition System was completed in 1991, providing monitoring and control for most of the Bureau's facilities from a central location. A third-generation system upgrade is now complete and provides advanced, cyber-secure control of the system.

#### **SUMMARY OF KEY FEATURES**

The following table summarizes key features of the Water System.

#### Table 6 CITY OF PORTLAND, OREGON Water Bureau Water System Statistics (December 31, 2012) (1)

Watershed Managed Storage Capacity	16.9 billion gallons
Normal Useable Capacity	9.9 billion gallons
No. of CSS Groundwater Wells	27
Initial CSS Well Field Capacity	102 MGD
No. of Transmission Conduits	3
Miles of Conduit Pipe	75
Miles of Intertie Conduit Pipe	4
Maximum Watershed Transmission Capacity	212 MGD
No. of In-Town Terminal Storage Reservoirs	6
No. of Standpipes and Tanks	58
Total In-Town Storage Capacity	300 million gallons
Miles of Transmission and Distribution Pipe	2,200
No. of Pump Stations	39
No. of Pumps	130
No. of Accounts (2)	180,910
- Single Family Residential	150,930
- Multi-Family Residential	10,510
- Commercial and Industrial	19,450
- Wholesale	19
No. of Fire Hydrants	14,300
No. of Valves (excl. hydrant valves)	49,700
No. of Drinking and Decorative Fountains	149

#### Notes:

- (1) Numbers are approximate.
- (2) The statistic has been changed to number of accounts. In prior reports, the statistic presented was the number of services or meters.

#### BULL RUN WATERSHED HYDROELECTRIC POWER GENERATION

The City owns two hydroelectric powerhouses in the Watershed which are a part of the Portland Hydroelectric Project (the "Hydroelectric Project"). The Hydroelectric Project's facilities were constructed from 1979 to 1982 and consist of a powerhouse with a 24-megawatt (36,000 horsepower) turbine/generator below Dam 1, a powerhouse with a 12 megawatt (16,000 horsepower) turbine generator below Dam 2 and ten miles of power transmission lines required to connect the Hydroelectric Project's powerhouses with the Portland General Electric ("PGE") power system grid. The Hydroelectric Project's powerhouses are physically operated and maintained by PGE personnel as a condition of the Hydroelectric Project's power sales agreement between the City and PGE. The total annual power generation from these facilities averaged about 86,200 megawatt-hours over the last 31 years of operation but varies from year to year based on the actual amount and distribution of rainfall falling over the Watershed in those years.

The Hydroelectric Project's powerhouses were constructed and are now operated under a license from the FERC as well as permits from the USFS and certain other State of Oregon agencies. Both the FERC license and the USFS permit clearly place the power generation aspect of the Hydroelectric Project in a secondary role to that of municipal water supply. These documents further restrict the Hydroelectric Project from varying the City's two major water supply reservoirs any more than two feet below their respective dam spillway crests solely for hydropower generation purposes with certain exceptions. The FERC license and associated USFS special use permit for hydropower facilities expire in 2029.

The Hydroelectric Project's FERC license boundary encompasses the facilities described above plus Dam 1 and Dam 2 and their respective reservoirs. The Hydroelectric Project's hydroelectric power staff applies the requirements of the FERC's dam safety program to those dams and reservoirs. As a part of that work, updated dam safety inspections and dam stability analyses are periodically performed for the Hydroelectric Project's dams and emergency action plans are prepared and exercised for the river channel downstream of the Hydroelectric Project.

The Hydroelectric Project's facilities and its associated revenues and expenses are accounted for under its own City Fund structure and are excluded from the Water System and its associated accounting under the First Lien Bond Ordinance and the Master Second Lien Bond Declaration.

#### WATER SYSTEM OPERATIONS

#### **Water Supply Operations**

Under normal conditions the Bureau can supply 100 percent of customer water needs entirely from the Watershed and under emergency conditions, the CSS Well Field can be used to supply base (fall, winter and spring) demands or to supplement the Bull Run supply to meet summer peak demands. The Bureau has established an annual summer supply planning process to coordinate and communicate yearly supply operations. Since 1992, the Summer Supply Plan has been updated annually. The plan provides a pre-agreed list of supply augmentations and demand reduction options that the Bureau can implement as needed, and contains trigger and implementation criteria under different forecast scenarios.

The Bureau is equipped to continue normal uninterrupted water service during a widespread power outage. Water delivered from the Watershed to Powell Butte is gravity fed, and backup generators are in place to maintain current treatment processes. Within the distribution system, the Bureau maintains demand adjusted storage that enables it to meet domestic use, fire, and emergency needs. Local pumping requirements (mainly for the hills of Portland's west side) and the Water Control Center are backed up with both permanent or mobile power generators or water pumpers.

To help ensure a timely and proper response to a severe or catastrophic event, the Bureau has an Emergency Management Program with an Emergency Operations Center ("EOC"). From the EOC, the Bureau's Emergency Manager can assist the Incident Command System personnel in planning and coordinating the Bureau's actions during emergencies. The Bureau has certified many of its employees in the National Incident Management System ("NIMS") to enhance its capabilities to effectively respond to a local emergency. The Bureau is currently updating its EOC and communication equipment to better prepare for a severe or catastrophic event with additional funding from federal grants. The Supervisory Control and Data Acquisition system, which monitors and manages the Water System's in-town storage, has undergone an upgrade that includes disaster mitigation by creating a fully redundant off-site water control center at the Lusted Treatment Facility.

#### **Treatment Operations**

#### Overview

Because of the high quality of the Watershed source and its SWTR filtration exemption, current treatment requirements for Portland are significantly reduced when compared to other systems utilizing surface water sources. (See "REGULATORY ENVIRONMENT—CURRENT AND EMERGING REGULATORY ISSUES" herein.) Current Watershed treatment facilities include only chlorine disinfection. The Headworks (primary) treatment facilities are located immediately below Bull Run Dam 2 in the Watershed. At the Headworks, chlorine is added for primary disinfection of the raw water. Water leaving the Headworks is continuously monitored to determine the free chlorine residual. Aqueous Ammonia ("Ammonia") is added to the water to form chloramines at the Lusted Hill Treatment Facility located approximately 10 miles downstream from the Headworks. Corrosion treatment is also located at the Lusted Hill Facility. Corrosion treatment began January 1, 1997, to comply with the EPA's Lead and Copper Rule.

#### Fluoride

On September 12, 2012, the City Council authorized and directed the Bureau to add fluoride to the City's water supply. The Bureau immediately began work on the planning, land use review and permitting needed to construct the fluoridation facility. At the same time, opponents of fluoridation filed a petition to refer the decision to Portland voters. City Code specifies that a referendum measure should be placed on the ballot at the next biennial primary or general election unless Council finds that public interest in a prompt resolution of the question outweighs the costs associated with a special election. In November 2012, election officials determined that sufficient valid signatures were collected within 30 days of City Council authorization to qualify the referendum to be placed on the ballot at the next biennial primary or general election, which is the May 2014 primary election. All fluoride-related activities of the Bureau were immediately stopped. In December 2012, the City Council passed a resolution to place the referendum petition regarding fluoridation of Portland's drinking water supply on a Special Election ballot scheduled for May 21, 2013.

The cost to construct the fluoridation facility is estimated at \$5 million with annual operating cost of about \$0.5 million. The plan is to only fluoridate the primary source of water, the Watershed, with the assumption that the groundwater supply continue to be used as an emergency back-up supply or to augment supply. These costs are not currently in the Five-Year Capital Improvement Plan nor in the Five-Year Preliminary Financial Plan. Pending the results of the May 2013 Special Election and City Council's direction, the Bureau may need to reprioritize the Five-Year Capital Improvement Plan to provide funding in FY 2013-14 to begin work on the fluoridation facility. The capital and operating costs would be included in subsequent updates of the capital and financial plans.

There is also an initiative petition that has been filed that would amend the City Charter to prohibit fluoridation of Portland's drinking water in the future. The deadline is January 17, 2014 to submit 29,786 valid signatures to place the ballot measure on the May 20, 2014 Primary Election ballot.

#### **Systemwide Plans and Strategies**

#### Asset Management

The Bureau's Asset Management Program guides the strategic management of physical assets to best support the delivery of identified services. It helps the Bureau to better manage existing assets, and plan for future needs. This process is guiding decisions as to the effective mix of maintenance, repair, renewal or replacement of the water system components, and has improved the Bureau's ability to focus on critical assets. A risk analysis methodology has been applied to assess the relative risks of asset failure; those assets with the highest risks are then identified for follow-up actions. Asset condition assessments have been completed or are underway for many asset classes. Business case methodology is being used to ensure that investment decisions deliver good value by comparing the cost of an investment to the benefits it provides. Benchmarking with best practices is giving the Bureau an opportunity to understand process improvement opportunities. Asset Management Plans have been prepared for almost all asset classes, capturing current information on service levels, inventory, condition, failure modes, risks of asset failure, and asset strategies.

#### Distribution System Master Plan and Capital System Plan

Last updated in 2007, a Distribution System Master Plan was developed to address the rehabilitation and capital expansion needs of the retail water supply system. The Bureau is also participating in the City's capital system plan process that will lead to an updated Citywide systems plan. The City is updating its Comprehensive Plan, a long-range 20-year plan that sets the framework for the physical development of Portland. Both the Distribution System Master Plan and the Citywide systems plan will be part of the Comprehensive Plan.

#### **Regional Coordination and Wholesale Agreements**

#### **Background**

The Bureau provides water to over 50 percent of the population in the Portland metropolitan area across Multnomah, Washington, and Clackamas counties. The Bureau currently sells about 40 percent of its water on a wholesale basis to 19 cities, special districts, and private water companies.

#### Regional Water Providers Consortium

The region's water providers have formed a Regional Water Providers Consortium (the "Consortium"), which operates with an elected officials Board and Executive Committee, one Technical Advisory Committee, as well as a Conservation Committee and an Emergency Preparedness Committee. The current size of the Consortium is 21 water providers and Metro and is jointly financed and operates through an annually approved work plan and budget administered by the City through a staffing intergovernmental agreement. The Consortium works together on water supply planning, water conservation media messaging, and emergency preparedness.

#### Wholesale Water Sales Agreements

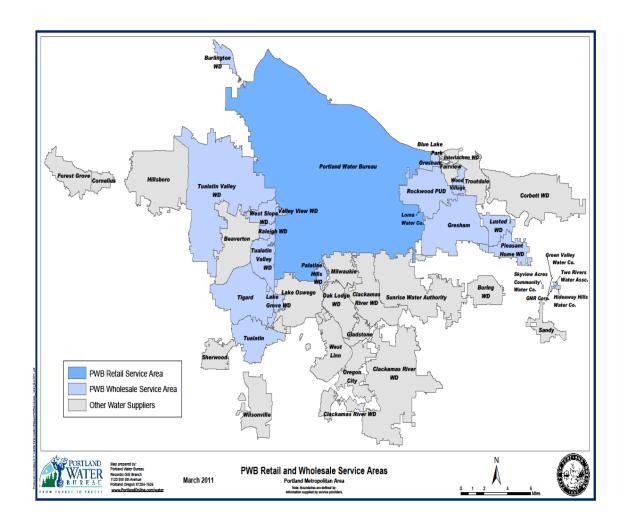
The City sells water on a long-term wholesale basis to 13 cities and public water districts. In 2006 and 2007, five of the 13 cities and public water companies signed 10-year agreements and eight signed 20-year agreements. In addition, the Bureau sells water to six small private water companies with similar agreements, whose contracts renew every five years. In 2009, the City signed a contract with a 20<sup>th</sup> wholesale customer, the City of Sandy, for water to be delivered beginning no later than November 2013.

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

Wholesale customers must give five years notice of non-renewal and can do so at any time during the last five years of their respective contracts. If such notice is issued, the contract will terminate on the next June 30 at least five years but not more than six years from the date of the notice. The agreements are virtually identical except that the 10-year agreement customers pay a higher rate of return to the City in exchange for the ability to elect not to renew their contracts at an earlier date. When some of the 10-year agreements expire, those customers that have access to alternate sources of water supply could opt to utilize those sources and reduce or even eliminate purchases from the City. The major westside wholesale customers who signed 10-year contracts are considering alternative sources of supply. Other 10-year customers without alternate sources may choose to renew their water supply contracts.

The City of Tigard has given notice that it does not intend to renew its water sales agreement with the City. The agreement will terminate effective June 30, 2016. However, the City of Tigard has indicated that it wishes to enter into negotiations with the City to provide a backup source of water in case it needs additional water in the future. Such negotiations have not begun yet. The remaining 10-year agreement wholesale customers have not provided notification of non-renewal of their agreements. Therefore, these customers are obligated to continue to purchase water through at least June 2018. Excluding the City of Tigard which has already given notice, if the remaining 10-year agreement customers that have available alternative supplies left the City's system, the resulting estimated retail rate increase in 2013 dollars for one year would be as much as 4.0 to 5.5 percent to ensure that revenues are sufficient to meet debt service coverage planning standards. However, the likely rate impact is less because some or

all of the relevant wholesale customers are expected to continue to purchase some water from the City in a desire to maintain a diversity in their water sources. A map of the Bureau's retail and wholesale service area is shown below.



#### REGULATORY ENVIRONMENT

Operation of the Water System is regulated under the Safe Drinking Water Act ("SDWA") through the United States Environmental Protection Agency, (EPA). In Oregon, administration of this Act is delegated to the Oregon Health Authority Drinking Water Program (OHA) as the "primacy" agency. OHA also establishes and enforces its own regulations for public water systems (OAR Chapter 333). The City's primary water source, the Bull Run Watershed, is located on National Forest System land that is co-managed by the USFS and the City under Public Law, P.L. 95-200 and other relevant laws and regulations applicable to federal lands.

The City is also subject to environmental regulations and statutes administered by the DEQ, which has been delegated enforcement authority by EPA for Clean Water Act issues, and the U.S. Fish and Wildlife Service and the National Marine Fisheries Service (NMFS) for Endangered Species Act, (ESA) issues.

#### REGULATORY DEVELOPMENT

In 1974, Congress initially adopted comprehensive legislation for drinking water supplies in the Safe Drinking Water Act (SDWA). Since then, the original legislation has been significantly revised and expanded twice, first in 1986 and again in 1996. Regulations arising from this legislation address a range of health concerns and issues including chemical and microbial contaminants, operator certification, disinfection and treatment practices, source water protection, and consumer information requirements. The first wave of new regulations resulting from the 1996 Amendments to the SDWA are largely in place at this time, but EPA anticipates an ongoing process through much of the early part of this century to fully realize Congress' intent in the recent revisions. The Water System is currently in compliance with all currently enacted regulations under the SDWA as well as those imposed by OHA.

#### ENVIRONMENTAL REGULATIONS AND COMPLIANCE PLANS

The City is also subject to environmental regulations and statutes administered by a variety of state and federal agencies. The 2009 Habitat Conservation Plan (HCP) is the most significant of the environmental regulatory compliance plans currently in place. In response to federal listings of salmon and steelhead in the lower Columbia River region, the Bureau took a lead role in establishing a partnership of public and private organizations, now called the Sandy River Basin Partners, with a common objective of fish habitat conservation and restoration in the Sandy River Basin. In coordination with the Partners, the City prepared a comprehensive HCP as provided for in Section 10 of the federal Endangered Species Act (ESA) to meet the City's obligations for the Bull Run system. The HCP also includes measures to address the City's obligations to manage water temperature under related Clean Water Act (CWA) requirements administered by DEQ. The HCP was approved and an Incidental Take Permit was issued by the NMFS in April 2009. The DEQ subsequently approved a Temperature Management Plan. This package of regulatory commitments provides reasonable certainty for the Bureau to operate its water supply facilities in the Bull Run Watershed in compliance with the federal ESA and CWA for the next 50 years. A recent court decision may have an effect on future implementation of the Temperature Management Plan. (See "LITIGATION" herein.) Implementation of the 49 measures included in the Bull Run HCP has begun, and progress is reported by the Bureau annually to NMFS and to DEQ. The Bureau continues to operate in compliance with the HCP and Temperature Management Plan requirements.

#### **CURRENT AND EMERGING REGULATORY ISSUES**

Water utilities strive to deliver to customers an adequate and reliable supply of high quality water at a reasonable price. Regulations can be significant drivers that influence this effort. The Bureau's current focus of attention is compliance with the Long Term 2 Enhanced Surface Water Treatment Rule (the "LT2 Rule").

#### **Water Quality**

In January 2006, the EPA issued the LT2 Rule. According to the EPA, "The purpose of the LT2 Rule is to reduce illness linked with the contaminant *Cryptosporidium* and other disease-causing microorganisms in drinking water." Compliance with the LT2 Rule impacts two separate parts of the City's Water System.

First, the rule requires that by April 1, 2014, the City provide additional treatment to its Bull Run supply to either remove or inactivate *Cryptosporidium*. The treatment options available to the City for this include filtration (either traditional or newer micro-membrane technology to remove the parasites), ozonation (the introduction of ozone to water to destroy the *Cryptosporidium* oocysts), chlorine dioxide (a chemical disinfectant) or ultraviolet radiation (ultraviolet lights irradiate the *Cryptosporidium* oocysts to prevent them from reproducing which is commonly referred to as inactivation). Another compliance

option for the surface water treatment requirements of the LT2 Rule under the federal SDWA is to obtain a variance, which would enable water utilities to avoid the installation of additional treatment in return for meeting other specified conditions.

Second, the LT2 Rule requires changes to how uncovered finished drinking water reservoirs are utilized, managed and/or operated. The rule requires that water systems with uncovered finished water reservoirs, like those at Mt. Tabor and Washington Parks, either cover the reservoirs or provide treatment at the outlets of the reservoirs to inactivate *Cryptosporidium*, *Giardia* and other pathogens. The EPA and the OHA have each separately indicated that there is no variance option for compliance with the uncovered drinking water requirement of the LT2 Rule.

#### Compliance with LT2 Rule Requirements for Treatment

During the last two decades, *Cryptosporidium* has emerged as a public health issue, especially for those with suppressed immune systems. *Cryptosporidium* is a micro-organism (protozoan) that can be transmitted through the fecal material of animals and humans and is therefore naturally present in bodies of surface water throughout the world. Surface water sources that are exposed to intensive human activities, pollution and animal wastes are likely to contain the parasite. *Cryptosporidiosis*, the disease caused by *Cryptosporidium*, is not treatable with antibiotics.

The Watershed is far removed from the types of human activities and pollution that are associated with the presence of *Cryptosporidium*. There is no human sewage or cattle exposure to Portland's source water in the federally protected Watershed. The wildlife that inhabits the Watershed poses the only potentially significant source of *Cryptosporidium*. Because of this, the City only rarely detects *Cryptosporidium* in the Bull Run when it conducts regular water quality monitoring. The City has been able to maintain the Watershed as one of only a half a dozen large unfiltered surface water supplies in the United States. The 1989 SWTR included filtration avoidance criteria that were based upon the premise that chlorine disinfection of a very high quality water source is adequate to protect public health.

On March 14, 2012, OHA issued a Final Order granting the City a variance to the treatment requirements of the LT2 Rule. The variance went into effect on April 1, 2012, and will be in effect for ten years as long as the City is able to meet a set of important conditions designed to protect the health of Portland drinking water customers. These conditions require the Bureau to continue to monitor Bull Run source water for *Cryptosporidium*, maintain all legal protections in the Bull Run, and monitor and manage any potential sources for *Cryptosporidium* contamination in the Watershed. In the event of a first detection of *Cryptosporidium*, the Bureau is required to increase its monitoring efforts, coordinate with health officials to determine what, if any, impacts the detection may have, and communicate this information to its customers. The communications requirement in the variance conditions requires, at minimum, a press release to Portland-metro media outlets and posting of the information on the Bureau website if *Cryptosporidium* is detected at the intake. If one or more detections occur during this one-year period of increased monitoring, it is likely that OHA will revoke the variance. Annual operations and maintenance costs to conduct the treatment variance program are projected to be \$1.3 million.

#### Compliance with LT2 Rule Requirements for Uncovered Finished Drinking Water Reservoirs

A plan by the City explaining the schedule and manner for bringing Portland into compliance with the uncovered storage requirements of the LT2 Rule was due to the EPA by April 1, 2009. The City submitted a plan to the EPA by this deadline and received approval. The plan includes constructing an enclosed 50 million gallon storage reservoir at Powell Butte, increasing the storage capacity at Kelly Butte to 25 million gallons, replacing Washington Park Reservoir 3 with a 15 million gallon buried tank and constructing transmission pipes and other system improvements. The deadlines in the plan to disconnect Mt. Tabor and Washington Park uncovered reservoirs from the drinking water system are December 31, 2015, and December 31, 2020, respectively. The Capital Improvement Plan includes costs of these projects to meet the current approved schedule deadlines.

In August 2011, in response to United States Senator Charles Schumer on behalf of the City of New York, the EPA agreed to review the LT2 regulation as part of its standard regulatory review and also in response to a presidential executive order. In February 2012, the City asked for an opportunity to extend the Bureau's compliance schedule to disconnect the City's uncovered reservoirs for a period that would extend beyond the EPA's review of the LT2 Rule. The compliance schedule extension would have resulted in the Mt. Tabor and Washington Park reservoirs being disconnected from the drinking water system as of June 30, 2023, and June 30, 2025, respectively. On May 17, 2012, the OHA denied the City's request for an extension. The existing regulatory schedule to replace all uncovered storage by December 31, 2020, is therefore in effect and the Bureau is moving forward to complete the necessary projects to comply with this schedule. In early January 2013, Commissioner Novick placed the design contracts for the Washington Park Reservoir #3 improvements on hold pending a response from OHA to a second request by the Portland City Council for an extension of the LT2 reservoir compliance schedule. The request was sent in early February, and a response is expected from OHA in sufficient time for the Bureau to meet its compliance obligations if the second request is

denied. Despite the pending request, costs of the Washington Park Reservoir #3 improvements continue to be included in the current Capital Improvement Program. (See also "CAPITAL IMPROVEMENT PROGRAM – Capital Programs and Projects.")

#### **Portland Harbor Sediments**

In December 2000, Portland Harbor was listed as a federal Superfund site. Because the Bureau owns land and operates facilities within the Portland Harbor Investigation area, the Bureau may be liable for a portion of the cleanup and restoration activities, as well as costs for restoration of natural resources. The City believes that an estimate of maximum City exposure of the Portland Harbor cleanup cannot be made but could be material to the period in which it is realized. The Bureau's exposure would only be a small part of any final City-wide obligations. (See "LITIGATION" herein.)

#### ORGANIZATION AND STAFF OF THE PORTLAND WATER BUREAU

#### **BUREAU ORGANIZATION**

The Bureau's Adopted FY 2012-13 budgeted work force of 611 full-time positions, along with three limited-term, full-time positions and five part-time positions, is managed by a ten person Management Team led by the Administrator. The Bureau's Management Team is composed of the Administrator, six Work Group Directors, Security Manager, Public Information Manager, and Water Administrative Manager. The Bureau's internal management structure combines the efforts of the Administrator's Office and six Work Groups including Finance and Support Services, Customer Services, Maintenance and Construction, Engineering, Resource Protection and Planning, and Operations. At times, consultants are used for specific projects that require expertise or staffing beyond the Bureau's capability. Certain administrative and support functions are provided by other City departments and bureaus on a reimbursable basis.

The 611 full-time positions (and 8 limited-term or part-time positions) of the Bureau are distributed as follows:

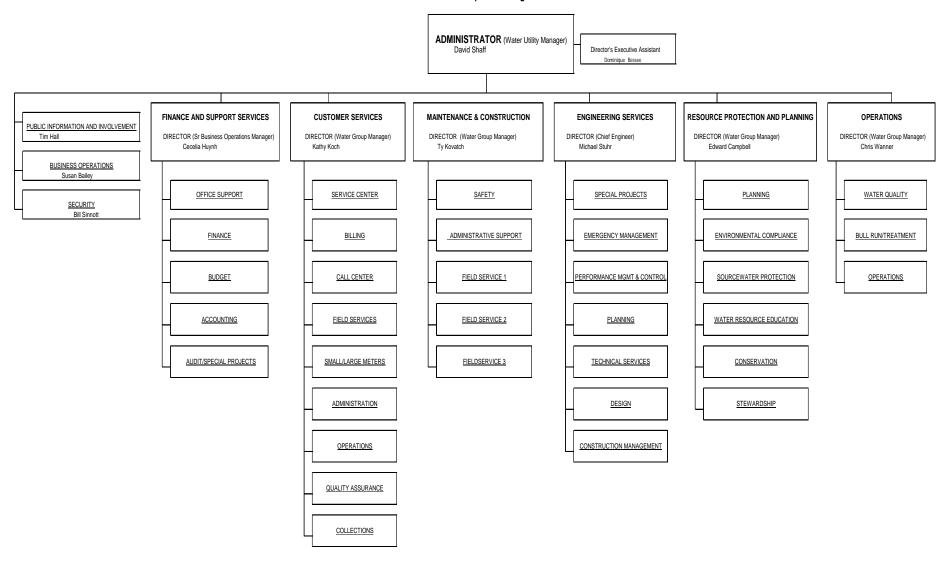
- Administrator's Office 46 positions, 1 part-time
- Finance and Support Services 21 positions, 1 part-time
- Customer Services 108 positions, 2 part-time, 2 limited-term
- Maintenance and Construction 169 positions
- Engineering 133 positions, 1 part-time, 1 limited-term
- Resource Protection and Planning 28 positions
- Operations 106 positions

The chart on the following page shows the Bureau's organization for the FY 2013-14 Requested Budget.

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## PORTLAND WATER BUREAU

FY 2013-14 Requested Budget



### ADMINISTRATOR'S OFFICE AND WORK GROUPS

The Administrator's Office is responsible for policy planning, leadership, direction, and operation of the Bureau. The Administrator's Office also manages security for the distribution system, property management, organization development, human resources management, public information/involvement, long-range planning, community relations, legislative activities, and liaison with the Commissioner-in-Charge and City Council. Property management responsibilities also include grounds maintenance and operation and maintenance of the drinking fountains.

The Finance and Support Services Group provides financial planning, rate setting, budgeting, accounting, payroll, auditing, financial analyses, and fiscal monitoring functions for the Bureau. It also provides clerical support for Bureau staff in the Portland Building. This group manages the interfaces to City financial and personnel systems, and other Bureau-specific software systems.

The Customer Services Group is responsible for managing billing, customer accounts, answering customer inquiries, processing customer payments, reading meters and providing water service inspections. This group is also responsible for the repair, maintenance and replacement of meters. It also includes a quality assurance group.

The Maintenance and Construction Group is responsible for repair, operation, and maintenance of the distribution system. Installation, operation, and maintenance functions related to mains, services, valves, hydrants, and leak detection are performed by this group. This work includes direct services and related support for control valves, carpentry, purchasing and stores operation, and loss control programs. This group manages the Bureau's two apprentice programs. The emergency crew provides response for outside normal work hour requirements, including main breaks and other emergency responses.

The Engineering Group is responsible for planning, design, and construction of the Water System. In addition, this group serves as customer liaison for new service installation, drafting (including geographic information system), surveying, inspecting, and maintaining records on distribution system improvements. This group manages the Bureau's emergency management program. This group also has responsibility for developing facility standards, asset management, contract management, and developing and managing the Bureau's CIP. Administrative oversight of the Hydroelectric Power function is conducted within this group.

The Resource Protection and Planning Group is responsible for coordination with federal, state and local partners to protect the quality of both of Portland's drinking water sources, invasive species mitigation and environmental compliance. Responsibilities include addressing legislative and regulatory issues and performing research, comprehensive planning on major issues, supply and demand analysis, and coordination of the Regional Water Providers Consortium. This Bureau work group is also responsible for the Bureau's business, residential and multifamily water efficiency programs, water resource education programs, Bureau sustainability efforts, and government relations.

The Operations Group is responsible for the operation and maintenance of water storage and supply, treatment and transmission from the Watershed and the Columbia South Shore and Powell Valley Well Fields. This group operates and maintains the conduits, terminal storage reservoirs, tanks, pump stations, water treatment facilities, pressure regulators, an accredited Laboratory, and the Water Control Center. Work responsibilities include water quality protection, regulatory compliance, laboratory services, system analysis, and addressing water quality customer complaints.

### MANAGEMENT PERSONNEL

The following are brief biographies of key management personnel.

Edward Campbell, Director of Resource Protection and Planning, is responsible for resource protection and planning, including coordination with federal, state and local partners on source protection efforts for both of the Bureau's drinking water sources, long-term planning and policy development work, compliance with environmental regulations, and leading the Bureau's regulatory compliance efforts for the surface water treatment requirements of the LT2 Rule and the federal Endangered Species Act. He joined the Bureau in 2004 as an assistant to the Administrator and was selected to lead the Resource Protection and Planning Group in August 2005. Prior to coming to the Bureau, Mr. Campbell served as a senior policy advisor, sustainability coordinator and chief of staff to City Commissioner Dan Saltzman and before that as communications director for Multnomah County Chair Beverly Stein. Mr. Campbell holds a Bachelor of Arts degree in English Literature from the University of Virginia.

**Cecelia Huynh, Director of Finance and Support Services**, is responsible for overall management of financial planning, budgeting, rate setting, accounting, and support services. Ms. Huynh has been working in the Bureau since 1990. She joined the Finance and Support Services Group in 2002 as the budget manager, then served as the finance manager beginning in 2008, and

was appointed as Director of Finance and Support Services in 2012. Ms. Huynh has a Bachelor of Science degree in Finance and Management from Portland State University, Oregon.

**Kathryn Koch, Director of Customer Services**, is responsible for the overall management of customer services including account services, billing and collection, quality assurance, meter reading, meter maintenance and repair, and data processing. Ms. Koch joined the Bureau in 1990. She serves as a member of the National American Water Works Association Customer Service Committee, the Pacific Northwest Customer Services Committee, and is the founding member and board member of the nationwide Water Customer Care Forum. Ms. Koch holds a Bachelor of Arts degree in English Literature from Pacific University in Forest Grove, Oregon.

**Ty Kovatch, Director of Maintenance and Construction**, is responsible for overall management of maintenance, construction and support functions, including repair and maintenance of the distribution system, maintenance management system, purchasing and stores operation, fleet, and apprentice programs. Mr. Kovatch joined the City in 2002 where he served as Chief of Staff to Commissioner Randy Leonard, who was Commissioner-in-Charge of the Portland Water Bureau from July 2005 through December 2012. Mr. Kovatch also served as Interim Director of Portland's construction and land use permitting for the Bureau of Development Services, and joined the Portland Water Bureau in 2012. He has a Bachelor of Arts degree in Political Science from Pacific University.

**David G. Shaff, Administrator**, is responsible for the ongoing operation of the Bureau, as well as security, long-range planning, organization development, facilitation of regional partnerships, and coordination with governments and regulators. Mr. Shaff began working for the City in 1978. He worked for the first 25 years in the Bureau of Human Resources, primarily in Labor Relations. While working in Labor Relations, Mr. Shaff was responsible for negotiating each of the City's collective bargaining agreements multiple times and ended his tenure there as the City's Labor Relations Manager in 2003. He joined Commissioner Leonard's staff in 2004 until he was appointed Interim Administrator of the Bureau in July 2005 and was permanently appointed in July 2006. Mr. Shaff has a Bachelor of Arts degree in Political Science and German from Lewis and Clark College. He received his J.D. from Lewis and Clark Law School in 1983.

Michael Stuhr, Director of Engineering, is responsible for overall management of engineering, its support functions, and administration of the CIP including planning, design, and construction as well as emergency management. Mr. Stuhr joined the Bureau in 2003 and was the Director of Maintenance and Construction during his first two years. Mr. Stuhr has over 30 years experience leading and managing a wide variety of engineering activities and more than 10 years as a senior executive with state, federal, and international experience managing multimillion dollar environmental, water resource, and facilities engineering programs. He is a registered professional Civil Engineer. Mr. Stuhr has a Bachelor of Science degree in Engineering from the United States Military Academy, a Master of Science degree in Geotechnical Engineering from Stanford University, and a Master of Business Administration degree from the University of California, Davis.

Chris Wanner, Director of Operations, is responsible for management of operations and maintenance of surface and groundwater supplies, including treatment, transmission and terminal storage, regulatory compliance, distribution pump stations and tanks, system analysis, and the SCADA system. Mr. Wanner was appointed Director of Operations in 2005. He has State of Oregon certifications at the highest levels for both Water Distribution (WD4) and Water Treatment (WT4) and is a veteran of the United States Army. He has Associate degrees in Computer Technologies and Electronic Engineering from Portland Community College and maintains a State of Oregon electrical license.

### **BUREAU PROGRAMS**

The Bureau's work is organized within seven Bureau Programs. The seven Bureau Programs are as follows.

- The Supply Program is responsible for providing the water that all customers use in the Portland service area, including retail and wholesale customers. The provision of water in the quantities desired by customers is a key portion of the mission of the Bureau. This program includes the activities related to the City's primary Watershed supply, as well as the secondary water supply, the CSS Well Field and Powell Valley wells.
- The Treatment Program is responsible for the ongoing water treatment operations required to meet or exceed federal and state
  water quality standards. This program currently includes the treatment processes at Headworks, Lusted Hill, and the CSS
  Well Field facilities.
- The Transmission and Terminal Storage Program is responsible for the conveyance of finished water from the supply sources to the City's retail distribution system or to the service delivery points for wholesale customers. This program also includes the major storage reservoirs, including terminal storage at Powell Butte, Mt. Tabor and Washington Park.

- The Distribution Program is primarily for the conveyance of finished water through the distribution mains from the terminal storage reservoirs to the retail customers. This work includes maintenance of the distribution mains, pump stations and tanks, meters, services, hydrants, valves, gates, fountains, and field support. These various segments of the program cover a wide variety of purposes, such as tanks to store water and maintain system pressures, meters to accurately record usage for billing, hydrants for fire protection and for line flushing, and valves to alter or stop water flows under various circumstances such as line breaks or fire suppression.
- The Regulatory Compliance Program is responsible for meeting or surpassing all federal and state regulatory requirements for drinking water and environmental quality. Regulatory requirements include compliance with ESA, CWA, and various monitoring requirements. Laboratory services are included within this program.
- The Customer Service Program provides services for customers other than the direct supply of water. It includes customer billing, collection, call center, meter reading and inspection. This program also includes water efficiency, security, permits, and maintenance of decorative fountains and grounds for Bureau properties.
- The Administration and Support Program supports other Bureau programs including planning, financial support, data management, and human resource functions. The purpose of this program is to help ensure that the needs of the other programs are met and that City-wide information and services are provided as needed for the direct-service programs to operate effectively.

### CAPITAL IMPROVEMENT PLAN

Proceeds of the 2013 Series A Bonds will be used to fund a portion of the costs of the capital improvement plan ("CIP") of the Water System, including additions, improvements, and capital equipment that facilitate supply, treatment, transmission, storage, pumping, distribution, regulatory compliance, customer service and support.

Funding for the CIP is through a combination of cash flow from rates, proceeds from borrowings, project reimbursements, System Development Charges ("SDC"), and interest earnings. The size and timing of future bond issues is determined through analysis of projected capital requirements and Water System financial resources.

### THE CAPITAL PLANNING PROCESS

The Bureau focuses its efforts on regulatory compliance elements, improving the condition of its aging infrastructure, and addressing operations and maintenance needs. The CIP addresses longer term infrastructure replacement and maintenance needs, while addressing short-term water system infrastructure needs to ensure compliance with drinking water regulations.

The CIP is the implementation plan for water system improvements. It is updated annually and is the budget and policy tool for the bureau and City Council to direct capital work. The CIP identifies in detail specific projects, their budgets, phasing of components, and the relationship among capital projects.

The CIP process is a bureau-wide collaborative effort of engineers, operations and maintenance managers, financial analysts, and policy staff. Together they bring to bear planning analysis, engineering standards, operational, technical, regulatory and fiscal expertise, and an understanding of external factors affecting bureau operations. The criteria used to select projects for inclusion in the budget include fulfilling service levels, such as those for maintaining pressure and limiting customer outages, operating assets at the most efficient and cost-effective levels, contributing to local and regional sustainability and energy-conservation goals, providing appropriate redundancy within the supply system, complying with all state and federal water-quality regulations, ensuring access to key water-supply facilities, and coordinating with other agency infrastructure projects.

The CIP is reviewed by the Budget Advisory Committee as part of the Bureau's budget request. The Budget Advisory Committee is comprised of Bureau management and staff, citizen volunteers, and specific stakeholder group representatives. The CIP budget priorities focus on water improvements that support other governmental agency capital improvement projects as directed by City Council, continuing to expand the utilization of an asset management plan and computerized maintenance management system to support system maintenance activities, implement the Bull Run HCP, and implement improvements necessary to assure compliance with current safe drinking water regulations, including the LT2 Rule.

In April 2012, City Council adopted the Portland Plan which declared that "we cannot make Portland prosperous, educated, healthy and equitable without providing reliable and quality basic services like public safety, clean water and clean sewer services." City Council has directed all City Bureaus to implement the Portland Plan Five-Year Action Plan and will evaluate the City's progress using twelve Portland Plan Measures of Success. The three Measures most related to the CIP are listed below:

- By 2035, 70 percent of Portlanders take active transportation, transit or carpool to work or work from home.
- By 2035 80 percent of Portlanders live in walkable, complete neighborhoods.
- By 2035, carbon emission levels are 50 percent below 1990 levels.

All Bureau projects complete permit and planning processes which are integrated with the City's vision of strong and vibrant neighborhoods. The Bureau has participated in several CIP projects that support the addition and improvement of Portland's public transit infrastructure and the reduction in carbon emissions.

The Bureau's capital planning process is also guided by the City's Comprehensive Plan which recommends that the Bureau invest in maintaining and developing water system resources. The CIP supports the Comprehensive Public Facilities Plan by maintaining the City's water infrastructure and developing new infrastructure in a responsive and efficient manner.

### CAPITAL PROGRAMS AND PROJECTS

The CIP is summarized within the following six Bureau programs with key projects identified:

- **Customer Service:** The Bureau's participation in the City Emergency Coordination Center is the primary project included within this program. Bureau security staff will operate from this location with the Portland Bureau of Emergency Management. In the event of an emergency, all City coordination staff will operate from this center.
- **Distribution:** Approximately \$244 million of the CIP is for improvements to the distribution system. Of the total, about \$83 million is to be used for direct water line replacement projects, including work initiated by other bureaus and agencies, as well as replacement of the oldest or most deteriorated portions of the distribution system. About \$35 million is to continue rehabilitation of the Interstate maintenance building. There is \$57 million for the Willamette River Pipe Crossing Project. Almost \$16 million is for pump stations and tanks. Other improvements include services, meters, hydrants, fountains, and vehicle and equipment replacement.
- **Regulatory Compliance:** More than \$25 million has been planned for improvements to the water supply from the Watershed, principally the Dam 2 Tower Improvements. Construction continues on the HCP Alder Creek project to enhance fish habitat.
- Supply: This program includes projects to improve existing facilities and roads in the Watershed and improvements to the
  groundwater basins. A groundwater system project will reduce the risk of an extended electrical supply outage to the
  groundwater pump station.
- Transmission and Terminal Storage: The major projects in this program includes \$35 million to continue construction of
  the 50 million gallon water storage tank at Powell Butte and \$119 million for other enclosed storage including Kelly Butte
  reservoir and Washington Park reservoir. (See "REGULATORY ENVIRONMENT—CURRENT AND EMERGING
  REGULATORY ISSUES—Water Quality—Uncovered Finished Drinking Water Reservoirs" herein.) Also included is \$33
  million for other conduit and transmission main projects.
- **Treatment:** The only project in this program is the Headworks Flow Meters to accurately record treated water flow and regulate chemical additions to the system in compliance with drinking water regulations.

### CAPITAL IMPROVEMENT PLAN RESOURCES AND REQUIREMENTS

Capital costs during the forecast period are contained within six programs in the CIP. Summary costs for six of the Bureau Programs are shown in Table 7. Table 8 shows Water Construction Fund Sources and Uses of Funds for the forecast period from FY 2013-14 through FY 2017-18. The Bureau's direct capital requirement forecast for the Water System totals \$480.7 million during the five-year period FY 2013-14 through FY 2017-18. During the same period, resources supporting all related capital construction include cash-financed capital funding from rate revenues of \$167.8 million, capital charges of \$35.6 million, interest income of \$1.9 million, and proceeds from borrowings of \$293.9 million (net of debt service reserves and not including proceeds of the 2013 Series A Bonds). Bond proceeds (net of debt service reserves) totaling approximately \$293.9 million are anticipated in FYs 2014-15 and 2016-17.

As discussed above, the CIP is revised and updated annually. Spending plans are subject to change as the CIP is updated.

Table 7 CITY OF PORTLAND, OREGON Water Bureau **Forecast Direct Capital Requirements (1)** 

Fiscal Year Ending June 30	2013-14	2014-15	2015-16	2016-17	2017-18	Total
(In thousands of dollars)						
BUREAU PROGRAM (2)						
Customer Service	\$1,807	\$0	\$250	\$500	\$500	\$3,057
Distribution	44,017	53,981	39,132	49,043	58,024	244,197
Regulatory Compliance	7,737	4,117	9,300	2,350	2,000	25,504
Supply	879	4,712	2,950	3,250	2,500	14,291
Transmission and Terminal Storage	66,770	46,640	22,460	24,300	31,000	191,170
Treatment	2,500	0	0	0	0	2,500
TOTAL BY BUREAU PROGRAM	\$123,710	\$109,450	\$74,092	\$79,443	\$94,024	\$480,719

### Notes:

In current dollars based on FY 2013-14 Requested Budget.
 Forecast capital costs do not include expensed capital studies or Engineering Operating and Maintenance costs.

## Table 8 CITY OF PORTLAND, OREGON Water Bureau

### Water Construction Fund Forecast Sources and Uses of Funds (1)

Fiscal Year Ending June 30	2013-14	2014-15	2015-16	2016-17	2017-18
(In thousands of dollars)					
BEGINNING BALANCE (cash)	\$116,300	\$15,259	\$71,226	\$12,589	\$92,030
RECEIPTS					
Capital Charges	\$5,956	\$6,545	\$7,182	\$7,683	\$8,215
Bond Proceeds	0	151,249	0	142,640	0
Transfer from Water Fund	32,785	29,370	31,325	36,095	38,265
Interest Income	285	501	249	542	299
TOTAL RECEIPTS	39,026	187,665	38,756	186,960	46,779
TOTAL SOURCES OF FUNDS =	\$155,326	\$202,924	\$109,982	\$199,548	\$138,810
EXPENDITURES					
Capital Reimbursement to Water Fund Transfer to Water Bond Sinking	\$139,802	\$131,222	\$97,169	\$107,001	\$126,369
Fund	265	476	224	517	274
TOTAL EXPENDITURES	140,067	131,698	97,393	107,518	126,643
ENDING BALANCE	15,259	71,226	12,589	92,030	12,167
TOTAL USES OF FUNDS	\$155,326	\$202,924	\$109,982	\$199,548	\$138,810

### Notes:

(1) Based on FY 2013-14 Requested Budget.

### FINANCIAL POLICIES AND PLANNING STANDARDS

### FIVE-YEAR FINANCIAL PLAN

The Bureau annually prepares a five-year financial plan. The financial plan includes both operating and capital expenditures and expected rates for each year of the five-year forecast period. The financial plan reflects the financial implications of the Bureau's priorities and service levels.

Key policy objectives in developing the Bureau's financial plan include:

- Providing for sufficient annual funding of operating, maintenance, and capital programs approved by City Council;
- Providing for rates and charges to customers that are equitably based on generally accepted cost-of-service principles and as directed by City Council;
- Achieving a balance between financial health, operational effectiveness, infrastructure condition, effective management, rate affordability, and a skilled and experienced workforce;
- Optimizing capital financing strategies; and
- Ensuring the maintenance of appropriate and adequate cash balances (operating fund, construction fund, and rate stabilization account) consistent with City policies, bond covenants, and industry standards.

### FINANCIAL OPERATIONS POLICIES

### **Operating and Construction Cash Reserves**

The Bureau plans for a minimum fiscal year-end operating cash reserve of \$15.0 million. The Bureau also plans for a construction cash reserve of \$5.0 million or one-half of annual debt-financed capital expenditures, whichever is less. Bond sales are scheduled every one or two years when the balance in the Construction Fund approaches this level.

### **Rate Stabilization Account**

In 2006, the Bureau established a Rate Stabilization Account within the Water Operating Fund to smooth rate increases over the financial planning period and beyond. This smoothing is one of the Bureau's key financial planning objectives and is aimed at maintaining financial stability and predictability. It also helps ensure that debt service coverage meets planning standards. (See "POLICIES AND PLANS GOVERNING BOND ISSUES" below.) The Bureau began funding the Rate Stabilization Account beginning in FY 2006-07, and plans to maintain a minimum balance of \$2.0 million as defined in the Master Second Lien Water System Revenue Bond Declaration. This minimum Rate Stabilization Account balance also serves as an available useable reserve for unforeseen requirements. The FY 2011-12 ending balance in the Rate Stabilization Account is \$20.0 million. (See "FINANCIAL PROJECTIONS-USE OF RATE STABILIZATION ACCOUNT-Table 18" herein.)

### POLICIES AND PLANS GOVERNING BOND ISSUES

Since 1993, the Bureau has regularly funded a portion of its CIP through the issuance of revenue bonds. Though not required by bond covenants, the Bureau's planning standard is to set rates such that Net Revenues provide at least 1.90 times debt service coverage on First Lien Bonds. Additionally, the Bureau will maintain a planning standard that results in Stabilized Net Revenues providing at least 1.75 times coverage on the Combined Annual Debt Service (as defined in the Master Second Lien Water Revenue Bond Declaration) for both First and Second Lien Bonds. These standards exceed the debt service coverage required by the bond covenants.

### WATER SYSTEM OPERATING AND FINANCIAL INFORMATION

### **OVERVIEW**

This section provides operating and financial information specifically related to the Water System. Operating and Financial information for the City as a whole is found in Appendix D, "CITY OPERATING AND FINANCIAL INFORMATION."

### **FUND ACCOUNTING SYSTEM**

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

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

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

**Water Bond Sinking Fund.** This fund provides for the repayment of bonded debt and interest. The revenue bond reserve accounts are also maintained in the Sinking Fund. The source of revenue for this fund is a transfer from the Water Operating Fund, reduced by interest earnings on fund balances and a transfer from the Water Construction Fund of interest earnings on bond proceeds.

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

The Water Growth Impact Trust Fund was closed at the end of FY 2008-09. This fund was used to accumulate resources earmarked for future requirements resulting from growth in demand by wholesale customers. Since 1995, wholesale contributions were suspended with the deletion of the growth section in the 1980 25-year wholesale agreements. In FY 2007-08, the Bureau Operating Fund refunded to the respective wholesale customers the amounts paid into this fund, including interest. On July 1, 2008, the Bureau transferred to the Operating Fund the remaining fund balance of about \$1.9 million.

### **AUDITS**

Moss Adams LLP conducted audits of the financial statements for the City of Portland and related entities from FY 2002-03 through FY 2011-12. Appendix C, "EXCERPTS OF AUDITED FINANCIAL STATEMENTS," contains audited financial statements of the Water Fund. A complete copy of the City's FY 2011-12 audit is available on the City's web site at: http://www.portlandoregon.gov/bfs/60673. The City's web site is listed for reference only, and is not part of this Official Statement.

### HISTORICAL OPERATING RESULTS

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

The Bureau continues to maintain a target minimum debt service coverage ratio of 1.90 times on First Lien Bonds (higher than the 1.25 times coverage required by the First Lien Bond Ordinance). In September 2006, a new minimum debt service coverage ratio

target was implemented for combined first and second lien bond debt service of 1.75 times using Stabilized Net Revenues as defined in the Master Second Lien Water System Revenue Bond Declaration. The Master Second Lien Water System Revenue Bond Declaration requires 1.10 times debt service coverage using Stabilized Net Revenues.

Historical operating results of the Bureau's financial operations are shown in the following table. Between FY 2007-08 and FY 2011-12, Gross Revenues grew at a compound annual rate of 6.4 percent. Gross revenues in FY 2009-10, FY 2010-11, and FY 2011-12 increased primarily due to the rate change for water sales and increased delinquency receipts. Operating Expenses during the five-year period averaged \$65.4 million.

Over the last five years, Net Revenues have provided from 2.39 times to 3.17 times debt service coverage on First Lien Bonds. Debt service coverage fell to its lowest level in FY 2011-12 due to higher debt service requirements. The Bureau transferred \$1.56 million to the Rate Stabilization Account in FY 2011-12. Stabilized Net Revenues provided 2.00 times coverage on the combined annual debt service for both First and Second Lien Bonds in FY 2011-12.

Audited statements of revenues, expenses, and changes in fund net assets, the statement of net assets, and the statement of cash flows for the Water Fund are presented in Appendix C.

### Table 9 CITY OF PORTLAND, OREGON Water Bureau **Historical Operating Results**

Fiscal Year Ending June 30	2007-08	2008-09	2009-10	2010-11	2011-12
(in thousands of dollars)					
GROSS REVENUES (1)					
Operating Revenues	\$89,261	\$94,163	\$107,333	\$112,191	\$124,114
Interest Earnings	2,786	2,620	950	650	719
Capital Charges	11,214	8,650	5,405	5,859	7,523
Total Gross Revenues	\$103,261	\$105,433	\$113,688	\$118,700	\$132,356
OPERATING EXPENSES (1) (2)					
Operating Expenses	\$64,430	\$64,275	\$66,159	\$64,373	\$67,670
NET REVENUES	\$38,831	\$41,158	\$47,529	\$54,327	\$64,686
DEBT SERVICE					
First Lien Bonds	\$12,267	\$14,993	\$17,667	\$22,143	\$27,026
Second Lien Bonds	\$4,550	\$4,547	\$4,551	\$4,546	\$4,550
G.O. Bonds (3)	\$1,620	\$1,621	\$1,624	\$1,617	\$0
DEBT SERVICE COVERAGE (x)					
First Lien Bonds	3.17	2.75	2.69	2.45	2.39
First and Second Lien Bonds	2.31	2.11	2.14	2.04	2.05
All Debt	2.11	1.94	1.99	1.92	2.05
COVERAGE BASED ON STABILIZED NET REVENUES					
NET REVENUES					
Less: Transfers to Rate Stabilization Account	(\$3,500)	(\$2,250)	(\$7,400)	(\$3,290)	(\$1,560)
Plus: Transfers from Rate Stabilization Account	0	0	0	0	0
STABILIZED NET REVENUES	\$35,331	\$38,908	\$40,129	\$51,037	\$63,126
DEBT SERVICE COVERAGE (x)					
First and Second Lien Bonds	2.10	1.99	1.81	1.91	2.00

### Notes:

<sup>(1)</sup> As defined in First Lien Bond Ordinance and does not reflect adjustments to second lien calculations as defined in the new Master Second Lien Declaration.

Operating expenses include the Bureau's share of the City's Post-Employment Retirement Benefits (OPEB) starting in FY 2007-08. There are no outstanding General Obligation Bonds subsequent to the final principal payment on October 1, 2010. (2)

<sup>(3)</sup> 

### WATER SYSTEM CUSTOMERS AND DEMAND

The Bureau has both retail and wholesale water customers. Wholesale customers pay based on their use of the system in accordance with their contracts. Retail customers pay for the residual requirements.

The Bureau currently provides water on a wholesale contract basis to 19 water purveyors, which include cities, water districts, and private water companies. Annual water sales to these customers account for about 10% to 15% percent of annual water sale revenues, and about 40 percent of annual water demand. In 2006 and 2007, the City entered into new wholesale contracts with 13 cities and public water districts. These contracts account for over 99 percent of wholesale water sales. Five of the 13 wholesale contracts have a 10-year term and eight wholesale contracts have a 20-year term. The remaining wholesale contracts are with six small private water companies, whose contracts renew every five years. In 2009, the City signed a contract with a 20<sup>th</sup> wholesale customer, the City of Sandy, for water to be delivered beginning no later than November 2013. (See "THE WATER SYSTEM – WATER SYSTEM OPERATIONS-Wholesale Water Sales Agreements" herein.)

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

The amount of revenue to be generated from wholesale customers under these contracts is guaranteed to be about \$17.7 million in FY 2012-13 based on the take-or-pay provisions in the contracts, and the guaranteed water quantities requested by each wholesale customer.

The table below shows the guaranteed purchase quantities, percent of sales, rates, and guaranteed revenues from each wholesale customer for FY 2012-13.

Table 10
CITY OF PORTLAND, OREGON
Water Bureau
Wholesale Customers' Demand and Sales

Wholesale Customer	Earliest Date for Contract Termination	FY 2012-13 Guaranteed Purchase Quantities (million ccf)	FY 2012-13 Rate (1)	Guaranteed Revenue	% of Total Wholesale Sales
Tualatin Valley Water District (2)	06/30/18	6.4	\$0.951	\$6,106,998	34%
Rockwood Water PUD	06/30/26	3.8	\$0.598	\$2,276,078	13%
Gresham, City of	06/30/26	3.7	\$0.612	\$2,239,771	13%
Tualatin, City of (2)	06/30/18	2.1	\$0.859	\$1,844,326	10%
Tigard, City of (3)	06/30/16	2.0	\$1.557	\$3,039,062	17%
West Slope Water District	06/30/26	0.7	\$1.459	\$996,724	6%
Raleigh Water District	06/30/26	0.3	\$0.772	\$263,698	1%
Palatine Hill Water District	06/30/27	0.2	\$1.812	\$380,208	2%
Lake Grove Water District (2)	06/30/18	0.1	\$1.281	\$187,523	1%
Valley View Water District	06/30/26	0.1	\$1.895	\$149,804	1%
Pleasant Home Water District (2)	06/30/18	0.1	\$0.864	\$84,322	<1%
Lusted Water District	06/30/26	0.1	\$0.979	\$85,987	<1%
Burlington Water District	06/30/26	< 0.1	\$1.447	\$30,782	<1%
Six private water companies (4)	10/26/16	< 0.1	\$0.606	\$20,696	<1%
TOTAL		19.7		\$17,705,980	100%

### Notes:

<sup>(1)</sup> Wholesale rates are calculated using methodologies that differ from inside-city retail rates, and generally do not include distribution system costs.

<sup>(2)</sup> These customers with 10-year agreements are obligated to continue to purchase water through at least June 2018.

<sup>(3)</sup> The City of Tigard has given notice that it does not intend to renew its water sales agreement with City but has indicated it would like to negotiate with the City to provide a backup source of water.

<sup>(4)</sup> Six private water companies include GNR Corporation, Green Valley Water Company, Hideaway Hills Water Company, Lorna Water Company, Skyview Acres Water Company, and Two Rivers Water Association.

The following tables present information for the past five fiscal years on the number of accounts by wholesale and retail customers, consumption amounts in hundreds of cubic feet ("ccf"), and a list of major users of the Water System.

Table 11
CITY OF PORTLAND, OREGON
Water Bureau
Historical Number of Accounts

Fiscal Year Ending June 30	2007-08	2008-09	2009-10	2010-11	2011-12
TOTAL RETAIL CUSTOMERS (1)	182,000	183,400	181,100	181,200	180,600
WHOLESALE CUSTOMERS					
Tualatin Valley Water District	57,019	57,395	57,711	58,117	58,598
Rockwood Water PUD	13,189	13,025	13,218	13,204	13,234
Gresham, City of	16,758	16,233	16,304	16,291	16,866
Tualatin, City of	6,642	6,658	6,631	6,653	6,650
Tigard, City of	18,018	17,848	17,988	18,129	18,265
West Slope Water District	3,356	3,312	3,212	3,316	3,236
Raleigh Water District	993	998	1,000	1,003	1,006
Palatine Hill Water District	605	609	613	604	604
Lake Grove Water District	1,233	1,233	1,248	1,271	1,270
Valley View Water District	375	376	376	379	379
Pleasant Home Water District	531	532	533	541	545
Lusted Water District	410	410	410	408	410
Burlington Water District	118	118	118	118	118
Six private water companies (2)	217	217	213	212	213
Total Wholesale Customers	119,464	118,964	119,575	120,246	121,394
Grand Total	301,464	302,364	300,675	301,446	301,994

### Note:

<sup>(1)</sup> In FY 2011-12, the number of retail customers has changed to number of accounts. In the prior years, the number of services or meters was reported.

<sup>(2)</sup> Six private water companies include GNR Corporation, Green Valley Water Company, Hideaway Hills Water Company, Lorna Water Company, Skyview Acres Water Company, and Two Rivers Water Association.

### Table 12 CITY OF PORTLAND, OREGON Water Bureau Historical Consumption (ccf)

Fiscal Year Ending June 30	2007-08	2008-09	2009-10	2010-11	2011-12
TOTAL RETAIL CUSTOMERS	27,900,000	27,700,000	27,200,000	25,500,000	25,400,000
WHOLESALE CUSTOMERS					
Tualatin Valley Water District	6,552,747	6,491,709	6,339,320	6,589,619	6,536,389
Rockwood Water PUD	2,949,288	3,146,955	3,104,794	3,002,205	2,993,525
Gresham, City of	3,188,393	2,844,941	2,954,078	2,798,389	2,888,362
Tualatin, City of	2,808,598	2,772,672	2,308,092	2,257,048	2,493,131
Tigard, City of	2,520,796	2,517,159	2,550,541	2,542,052	2,383,738
West Slope Water District	616,787	618,975	537,173	515,508	506,309
Raleigh Water District	269,936	262,403	251,703	228,480	237,637
Palatine Hill Water District	194,072	210,651	165,945	144,926	142,337
Lake Grove Water District	178,660	168,365	147,040	144,940	146,325
Valley View Water District	68,607	79,487	62,805	53,520	56,390
Pleasant Home Water District	87,979	85,836	70,529	66,122	66,842
Lusted Water District	71,985	77,076	65,673	67,420	63,103
Burlington Water District	20,591	23,378	28,318	23,624	20,306
Six private water companies (1)	26,699	29,439	31,483	27,603	24,388
<b>Total Wholesale Customers</b>	19,555,138	19,329,046	18,617,494	18,461,456	18,558,782
Grand Total	47,455,138	47,029,046	45,817,494	43,961,456	43,958,782

### Note:

 $\underline{Source} \colon$  City of Portland. Totals may not add due to rounding.

<sup>(1)</sup> Six private water companies include GNR Corporation, Green Valley Water Company, Hideaway Hills Water Company, Lorna Water Company, Skyview Acres Water Company, and Two Rivers Water Association.

### Table 13 CITY OF PORTLAND, OREGON Water Bureau

### Major Users for Fiscal Year 2011-12

	Annual Usage	% of Annual Usage (ccf) to Total Retail	
Retail Commercial Users	(ccf)	Customers	Revenue
Siltronic Corp.	727,582	2.9%	\$2,226,981
City of Portland, Bureau of Parks	237,367	0.9%	794,377
Oregon Health and Sciences University	227,499	0.9%	719,400
Precision Castparts	210,013	0.8%	650,003
Port of Portland	170,375	0.7%	559,106
Portland Public Schools	168,047	0.7%	612,451
Darigold, Inc.	136,329	0.5%	419,604
Portland State University	115,837	0.5%	391,278
Vigor Industrial, LLC	108,681	0.4%	336,718
Multnomah County, Facilities & Property Management	106,404	0.4%	365,764
Largest Wholesale Users			
Tualatin Valley Water District	6,536,389		\$5,959,386
Tigard, City of	2,383,738		2,906,335
Gresham, City of	2,888,362		1,997,540
Rockwood Water PUD	2,993,525		1,996,609
Tualatin, City of	2,493,131		1,853,713
West Slope Water District	506,309		881,224

### Note:

Source: City of Portland.

<sup>(1)</sup> Siltronic stopped producing 150 millimeter-sized silicon wafers at its Portland, Oregon location in the fall of 2012 but will continue to produce 200 millimeter-sized wafers at this site. If Siltronic closes the Portland, Oregon factory, the estimated retail rate impact to ensure that revenues are sufficient to pay debt service and meet debt service coverage planning standards could be as much as two percent.

### RATES AND RATE SETTING

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

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

The Bureau received approval from the State of Oregon Water Resources Department for the City's Water Management and Conservation Plan (the "WMCP"). The WMCP final order states that the Bureau will perform a comprehensive study of conservation rate structure options within the next five years and determine if a change in rate structure is desirable or necessary. The conservation rate structure study is underway and will be completed by Spring 2013. Once the rate study and any action taken by the City have been completed, the information will be submitted to the Oregon Water Resources Department as part of the required progress report under OAR 086-0120(4) by May 25, 2015. Any change in the rate structure that might be implemented by the City is not expected to affect total revenues that would be collected to fund operations, and the earliest any action would be implemented would be FY 2014-15. Additionally, the Bureau will continue to maintain a planning standard that results in Stabilized Net Revenues providing at least 1.75 times coverage on the Combined Annual Debt Service (as defined in the Master Second Lien Water Revenue Bond Declaration) for both First and Second Lien Bonds.

The following tables summarize the Bureau's historical rates and water monthly bills for various customers as well as a comparison of residential monthly water bills for various systems within the State of Oregon and the nation.

# Table 14 CITY OF PORTLAND, OREGON Water Bureau Historical Water Rates

Fiscal Year Ending June 30	2007-08	2008-09	2009-10	2010-11	2011-12
WATER USAGE RATES					
Retail Volume Rate (per ccf) (1)	\$1.86	\$2.07	\$2.44	\$2.733	\$3.086
BASE CHARGE (2)					
Total Base Charge per Bill	\$19.66	\$18.51	\$22.13	\$24.79	\$27.99
Water Quarterly Billed Customer per month (2)	\$6.55	\$6.17	\$7.38	\$8.26	\$9.33
Water Monthly Billed Customer (2)	\$19.66	\$18.51	\$22.13	\$24.79	\$27.99
MONTHLY WATER BILLS (2)					
Residential (5 ccf) (3)	\$15.85	\$16.52	\$19.58	\$21.93	\$24.76
Medium Commercial (100 ccf) (4)	\$205.66	\$225.51	\$266.13	\$298.09	\$336.59
Large Commercial (20,000 ccf)	\$37,220	\$41,419	\$48,822	\$54,685	\$61,748
Low Income Residential (5 ccf) (5)	\$9.50	\$9.92	\$9.79	\$10.96	\$12.38

### Notes:

Source: City of Portland.

<sup>(1)</sup> Applies to substantially all retail customers.

<sup>(2)</sup> Beginning in FY 2007-08, the Bureau is responsible for the total base charge. In prior years, the base charge for FY 2007-08 reflected only the Bureau's share of the base charge rather than the total base charge.

<sup>(3)</sup> Current usage by a typical single family residential customer has dropped from 6 ccf to 5 ccf.

<sup>(4)</sup> Current usage by a medium commercial customer has dropped from 200 ccf to 100 ccf.

<sup>(5)</sup> Bills for low income residential customers include a discount on water usage and the base charge. In the prior years, the FY 2007-08 low income monthly bill reflected only the Bureau's share of the base charge rather than the total base charge. Beginning in FY 2009-10 the low income discount increased from 40% to 50% of a 5ccf bill.

### Table 15 CITY OF PORTLAND, OREGON Water Bureau

### **Comparison of Residential Monthly Water Bills**

WATER UTILITY (Effective Date) (1)	Residential Monthly Bill For 5 ccf	Residential Monthly Bill For 10 ccf
Local:		
Rockwood Water PUD (2012)	\$16.82	\$26.84
Milwaukie, City of (2012)	17.22	29.17
Tualatin, City of (2008)	18.35	29.80
Tualatin Valley Water District (2012)	20.89	34.14
Beaverton, City of (2012)	23.35	36.70
PORTLAND, CITY OF (2012)	26.65	43.25
Lake Oswego, City of (2012)	30.58	42.95
Gresham, City of (2012)	31.06	42.01
Tigard, City of (2013)	33.76	51.89
West Slope Water District (2013)	34.60	56.15
National:		
Charlotte (2012)		25.57
Denver (2013)		25.73
Cincinnati (2013)		27.40
Sacramento (unmetered) (2012)		37.79
Kansas City (2012)		49.19
Seattle (winter) (2013)		58.50

### Notes:

Source: City of Portland, Portland Water Bureau.

<sup>(1)</sup> Calculations are based on rates in effect as noted, and the City's rates are effective July 1, 2012 through June 30, 2013.

### **BILLINGS AND COLLECTIONS**

The City implemented the Cayenta Utilities billing system in April 2006 to serve the Bureau and the City's Bureau of Environmental Services. The City's Revenue Bureau operates the billing system with costs paid by the Bureau.

As of fiscal year ending June 30, 2012, residential accounts make up the majority of the 180,600 water services with commercial accounts totaling approximately 19,400 (including 3,500 fire line) water services. In addition to water service accounts, there are over 6,600 sewer-only accounts, most of which are billed bi-monthly.

Billing for most retail water customers (about 173,400) is on a quarterly cycle. A monthly pay option is available for qualified customers billed on a quarterly basis. Approximately 7,200 large retail commercial accounts, multi-family users, and wholesale purveyors are billed on a monthly basis.

A financial assistance program for water and sewer services is available to single family residential retail in-city customers with gross monthly household incomes at or below 60 percent of the average State of Oregon median family income. For FY 2012-13, assistance included a flat quarterly bill discount for water customers of \$40.00, crisis assistance vouchers (maximum of \$150 per year, including \$75 for water and \$75 for sewer), in-home plumbing repair assistance for owner-occupied properties up to \$2,600, and free conservation devices. In addition, a Utility Safety Net Program is available to ratepayers as a last resort to prevent shut off of service if they experience a significant change in household income due to employment, medical, or other emergencies.

Most water bills are collected along with the payment for sewer service. When a bill for water or wastewater service becomes delinquent (21 days after billing) a reminder notice is sent on day 35. Additional notices are sent up to termination of service at eight weeks. Even though the customer is still in arrears at the termination date, the City will set up special payment arrangements rather than shut off water service if it is in the best interest of both the City and the customer to continue water service. In recent years, a number of efficiencies have been added to the Bureau's billing and collection system, including the ability for customers to make payments electronically.

The Bureau currently bills most of its customers on a quarterly basis. The FY 2011-12 Adopted Budget included a budget note directing the Bureau to adjust its billing system and business processes so that the majority of the water and wastewater customers are billed monthly. City Council has revised their initial direction to provide a monthly statement to those who sign up for electronic billing. The Bureau is working to implement a voluntary electronic monthly statement program. Customers may request an electronic monthly statement, but the meter reading frequencies would not change.

### SYSTEM DEVELOPMENT CHARGES

An SDC is levied by the Bureau for each new water service connected to the Water System inside the City boundaries. The Bureau's SDC is in accordance with ORS 223.297-314, and is a reimbursement fee based on the estimated replacement cost of existing water facilities, less depreciation. The amount charged is dependent on the size of the service with larger services paying a greater amount based on the capacity of the meter. Services dedicated to fire flow and temporary construction services do not pay an SDC. FY 2011-12 SDC revenues were \$1.7 million.

# Table 16 CITY OF PORTLAND, OREGON Water Bureau FY 2012-13 SDC Charge by Meter/Service Size

Size of Meter/Service	Charge
5/8"	\$1,817
3/4"	2,727
1"	4,544
1-1/2"	9,087
2"	14,360
3"	26,925
4"	44,875
6"	89,750
8"	143,600
10"	258,121

Source: City of Portland.

Beginning with the FY 1999-00 rate ordinance, City Council approved an "Affordable Housing SDC Fee Waiver." For any new qualified residential construction that meets certain affordability requirements, the entire SDC can be waived for a 5/8" metered service. If a 3/4" metered service is requested, only the SDC dollar amount for the 5/8" metered service is waived. Multi-family housing SDC waivers are also available if certain affordability requirements are met. FY 2011-12 fee waivers (including accessory dwelling units waivers) totaled \$133,570. Loss of these revenues is made up through general water retail rates and charges. City Council extended the suspension of system development charges for construction of accessory dwelling units or the conversion of structures to accessory dwelling units until July 31, 2016. FY 2011-12 accessory dwelling unit SDC waivers were \$55,414.

### OTHER FINANCIAL INFORMATION

### **Outstanding Water System Debt**

Upon the issuance of the 2013 Series A Bonds, the City will have an estimated total of \$588,095,000 of Water System revenue bonds outstanding. The following table shows outstanding Water System revenue bonds as of the delivery of the 2013 Series A Bonds.

### Table 17 CITY OF PORTLAND, OREGON

### Water Bureau

### Outstanding Water System Revenue Bonds As of the Delivery of the 2013 Series A Bonds

<u>Issue</u>	<b>Dated</b>	Final <u>Maturity</u>	Original <u>Par Amount</u>	Amount <u>Outstanding</u>
First Lien Water System Revenue Bonds (1)				
2004 Series B (1)	5/6/04	10/1/13	\$61,900,000	\$2,900,000
2006 Series B	9/21/06	10/1/20	44,000,000	37,455,000
2008 Series A	8/7/08	11/1/33	79,680,000	72,245,000
2010 Series A	2/11/10	5/1/35	73,440,000	68,710,000
2011 Series A	3/22/11	5/1/36	82,835,000	79,360,000
2012 Series A	8/2/12	4/1/37	76,510,000	73,790,000
Subtotal			\$418,365,000	\$334,460,000
Second Lien Water System Revenue Bonds (2)				
2013 Series A	5/2/13	10/1/37	\$253,635,000	\$253,635,000
TOTAL			\$672,000,000	\$588,095,000

### Notes:

- (1) All Water System Revenue Bonds, 2004 Series A are refunded with proceeds of the 2013 Series A Bonds. Excludes 2014 through 2023 maturities of the Water System Revenue Bonds, 2004 Series B, which are refunded with proceeds of the 2013 Series A Bonds.
- (2) All Second Lien Water System Revenue Bonds, 2006 Series A are refunded with proceeds of the 2013 Series A Bonds.

Source: City of Portland.

### FINANCIAL PROJECTIONS

### KEY FORECAST ASSUMPTIONS

Financial projections for the Water System through FY 2017-18 are shown in the following three tables.

Key assumptions underlying the expenditure forecast include:

- Annual inflation for operating requirements for FY 2013-14 of 5.1 percent, and 3.0 to 3.9 percent for the remaining forecast period.
- The Bureau's cost related to the City's outstanding pension obligation bonds rises from \$3.1 million in FY 2013-14 to \$4.4 million in FY 2017-18, for a total of \$19.0 million over the forecast period.
- Pension system contribution rates average 17.5 percent of salary for FY 2013-14 and rise to 22.0 percent by FY 2017-18. (See "CITY OPERATING AND FINANCIAL INFORMATION—PENSION PLANS" in Appendix D.)
- All costs related to compliance with the LT2 Rule including regular monitoring and capital projects, but excluding construction of a UV treatment plant due to the Bureau's success in achieving the treatment variance.
- No capital or operating costs have been included to fluoridate Portland drinking water supply.

Key assumptions underlying the revenue forecast include:

- Retail water demand is projected to decline 0.5 million ccf in FY 2013-14 and FY 2014-15, 0.25 million ccf in FY 2015-16 and then remain at 25.75 million ccf for the remainder of the forecast period.
- Wholesale water sales across the forecast period are based on the 5-, 10- and 20-year contract terms. Wholesale revenues are forecast at \$16.1 million in FY 2013-14, or an average of about \$17.9 million per year over the five-year planning period. Increasing annual revenues over this period are due to modest inflationary increases and new capital investments that serve wholesale customers.
- City of Tigard wholesale contract terminates on June 30, 2016. The remaining customers with 10-year agreements continue to purchase water through the forecast period. The City of Sandy will pay for water beginning November 2013.
- User charges are projected to increase, as described below. (See "FINANCIAL PROJECTIONS—FORECAST RATES AND CHARGES.")
- In developing the five year projections, it has been assumed that additional First Lien Bonds or Second Lien Bonds will be issued to fund capital program requirements. Assumptions underlying the debt service forecast include:
  - An assumed true interest cost of 4.00 percent for the 2013 Series A Bonds.
  - The First Subaccount of the Second Lien Bond Reserve Account for the 2013 Series A Bonds will be cash funded with bond proceeds.
  - Additional revenue bonds are anticipated in FY 2014-15 and FY 2016-17 within the five-year period through FY 2017-18 totaling \$318.8 million. A six percent true interest cost is assumed for all additional First Lien or Second Lien Bonds. The subaccount of the Revenue Bond Reserve Account for each issue is anticipated to be funded with bond proceeds at 100 percent of maximum annual debt service for each series of bonds.

### USE OF RATE STABILIZATION ACCOUNT

In 2006, the Bureau established a Rate Stabilization Account to smooth rate increases while ensuring that coverage meets planning standards. (See "PROVISIONS OF THE 2013 SERIES A BONDS – RATE STABILIZATION ACCOUNT" and "FINANCIAL POLICIES AND PLANNING STANDARDS – Rate Stabilization Account.") The following table shows projected ending balances in the Rate Stabilization Account.

# Table 18 CITY OF PORTLAND, OREGON Water Bureau Projected Rate Stabilization Account Ending Balance (1)

Fiscal Year	<b>Ending Balance</b>
2012-13 (2)	\$22,600,000
2013-14	14,500,000
2014-15	5,700,000
2015-16	4,600,000
2016-17	2,800,000
2017-18	4,700,000

### Notes:

- The Rate Stabilization Account serves as a contingency for unforeseen expenditures, and to build account balance for the purpose of smoothing rate increases.
- (2) Fiscal Year 2012-13 Rate Stabilization Account balance reflects efforts by the Bureau to build fund balance for use in future years as shown.

Source: City of Portland.

### FORECAST REVENUES AND EXPENDITURES

Forecast sources and uses of the Water Operating Fund for FY 2013-14 through FY 2017-18 are shown in Table 19. Table 20 shows historical, projected, and forecast results of the Water System's financial operations for FY 2007-08 through FY 2017-18, including trends in revenues, expenses, and debt service coverage.

The principal resources available to the Water Operating Fund are service charges and fees. FY 2012-13 water rates and charges were adopted by City Council on May 30, 2012, representing an average effective retail rate increase of 7.6 percent from FY 2011-12 amounts. The average effective retail rate increase planned for FY 2013-14 is 7.8 percent, 14.4 percent in FY 2014-15 and FY 2015-16, 9.0 percent in FY 2016-17, 8.0 percent in FY 2017-18. All future rate increases are subject to City Council approval. As shown in the following table, receipts increase from \$282.8 million to \$334.3 million over the period FY 2013-14 to FY 2017-18 and represent an average annual increase of 4.3 percent. This increase is primarily the combination of projected increases in water rates (see "FORECAST RATES AND CHARGES" below) offset with decreases in the reimbursement of capital expenditures from the Construction Fund. No change in the number of retail customer accounts served by the Water System is expected. Overall retail water demand is projected to decline 0.5 million ccf in FY 2013-14 and FY 2014-15, 0.25 million ccf in FY 2015-16 and then remain at 25.75 million ccf for the remainder of the forecast period. The other major revenue source for the Water Operating Fund is the reimbursement of all capital expenditures by the Water Construction Fund. This amount averages \$120.3 million per year over the forecast period.

The Bureau projects Water Operating Fund expenditures to increase over the forecast period of FY 2013-14 through FY 2017-18 from \$299.2 million to \$332.4 million. Total operation and maintenance expenses are projected to increase from \$83.9 million to \$97.7 million over the same interval, representing an average annual increase of 3.9 percent. In addition to operation and maintenance expenses, Water Operating Fund requirements include capital outlays (reimbursed by the Water Construction Fund), debt service payments (transfers to the Water Bond Sinking Fund), cash transfers (rate-financed capital) to the Water Construction Fund, General Fund overhead, and Utility License Fee cash transfers to the General Fund, and Pension Obligation Bond Debt.

As is shown in Table 20, sufficient Net Revenues are projected to meet and pay debt service on revenue bonds, including planned future issues. Net Revenues provide from 2.22 to 2.36 times debt service coverage for First Lien Bonds, which exceeds the Bureau's 1.90 planning standard for First Lien Bond debt service coverage. Net Revenues also provide from 1.58 to 1.78 times coverage on Combined Annual Debt Service for both First and Second Lien Bonds. Stabilized Net Revenues provide not less than 1.75 times coverage on Combined Annual Debt Service for First and Second Lien Bonds.

### Table 19 CITY OF PORTLAND, OREGON

### Water Bureau Water Operating Fund

### Forecast Sources and Uses of Funds (1)

Fiscal Year Ending June 30	2013-14	2014-15	2015-16	2016-17	2017-18
(In thousands of dollars)					
BEGINNING BALANCE (Cash)	\$23,295	\$15,004	\$15,002	\$15,001	\$15,004
RECEIPTS:					
Water Sales	\$138,972	\$155,026	\$174,158	\$189,754	\$203,605
Interagency Receipts	1,719	1,747	1,815	1,869	1,933
Transfers from Construction Fund	139,802	131,222	97,169	107,001	126,369
Interest Income	150	125	101	93	94
Other Miscellaneous Receipts	2,131	2,117	2,199	2,265	2,342
TOTAL RECEIPTS	282,775	290,236	275,441	300,982	334,342
Transfer from Rate Stabilization Account	8,100	8,800	1,100	1,800	0
TOTAL SOURCES OF FUNDS	\$314,170	\$314,040	\$291,543	\$317,783	\$349,346
EXPENDITURES					
Operation and Maintenance	\$83,913	\$87,133	\$91,190	\$94,573	\$97,712
Transfers to Construction Fund	32,785	29,370	31,325	36,095	38,265
Direct Capital Costs	122,060	112,823	78,052	87,311	106,009
General Fund Overhead	4,560	4,729	4,913	5,061	5,233
Utility License Fee	5,990	6,717	7,636	8,366	9,046
Pension Obligation Bond Debt	3,092	3,533	3,871	4,125	4,367
Transfer to Water Bond Sinking Fund	46,766	54,734	59,555	67,248	71,813
TOTAL EXPENDITURES	299,166	299,039	276,542	302,779	332,445
Transfer to Rate Stabilization Account	0	0	0	0	1,900
- Tambles to Rate State Marion Recount	<u> </u>	<u> </u>	<u> </u>	<u> </u>	1,700
ENDING BALANCE	15,004	15,002	15,001	15,004	15,001
TOTAL USES OF FUNDS	\$314,170	\$314,040	\$291,543	\$317,783	\$349,346

### Notes:

(1) Based on FY 2013-14 Requested Budget.

### Table 20 CITY OF PORTLAND, OREGON Water Bureau

### Historical, Projected and Forecast Operating Results (1)

			Historical			Projected			Forecast		
Fiscal Year Ending June 30	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
(in thousands of dollars)						<u> </u>					
GROSS REVENUES (2)											
Operating Revenues	\$89,261	\$94,163	\$107,333	\$112,191	\$124,114	\$131,607	\$142,822	\$158,889	\$178,171	\$193,888	\$207,879
Interest Earnings	2,786	2,620	950	650	719	469	554	784	560	857	664
Capital Charges	11,214	8,650	5,405	5,859	7,523	7,596	5,747	6,329	6,957	7,451	7,976
Total Gross Revenues	\$103,261	\$105,433	\$113,688	\$118,700	\$132,356	\$139,672	\$149,123	\$166,001	\$185,689	\$202,195	\$216,519
OPERATING EXPENSES (2) (3)											
Operating Expenses	\$64,430	\$64,275	\$66,159	\$64,373	\$67,670	\$73,962	\$74,636	\$77,839	\$81,734	\$84,972	\$87,886
NET REVENUES	\$38,831	\$41,158	\$47,529	\$54,327	\$64,686	\$65,710	\$74,486	\$88,162	\$103,955	\$117,223	\$128,633
DEBT SERVICE (4)											
First Lien Bonds	\$12,267	\$14,993	\$17,667	\$22,143	\$27,026	\$31,511	\$31,495	\$39,717	\$44,337	\$52,336	\$56,706
Second Lien Bonds	\$4,550	\$4,547	\$4,551	\$4,546	\$4,550	\$4,550	\$15,654	\$15,651	\$15,653	\$15,650	\$15,653
G.O. Bonds (5)	\$1,620	\$1,621	\$1,624	\$1,617	\$0	\$0	0	0	0	0	0
Total Debt Service	\$18,438	\$21,161	\$23,842	\$28,306	\$31,576	\$36,061	\$47,149	\$55,368	\$59,990	\$67,987	\$72,359
DEBT SERVICE COVERAGE (x)											
First Lien Bonds	3.17	2.75	2.69	2.45	2.39	2.09	2.36	2.22	2.34	2.24	2.27
First and Second Lien Bonds	2.31	2.11	2.14	2.04	2.05	1.82	1.58	1.59	1.73	1.72	1.78
All Debt	2.11	1.94	1.99	1.92	2.05	1.82	1.58	1.59	1.73	1.72	1.78
COVERAGE BASED ON STABILIZED NET REVENUES (6)											
NET REVENUES	\$38,831	\$41,158	\$47,529	\$54,327	\$64,686	\$65,710	\$74,486	\$88,162	\$103,955	\$117,223	\$128,633
Less: Transfers to Rate Stabilization Account	(\$3,500)	(\$2,250)	(\$7,400)	(\$3,290)	(\$1,560)	(\$2,600)	\$0	\$0	\$0	\$0	(\$1,900)
Plus: Transfers from Rate Stabilization Account		-	-	-		-	\$8,100	\$8,800	\$1,100	\$1,800	\$0
STABILIZED NET REVENUES	\$35,331	\$38,908	\$40,129	\$51,037	\$63,126	\$63,110	\$82,586	\$96,962	\$105,055	\$119,023	\$126,733
DEBT SERVICE COVERAGE (x)											
First and Second Lien Bonds	2.10	1.99	1.81	1.91	2.00	1.75	1.75	1.75	1.75	1.75	1.75

### Notes:

- (1) Forecast based on FY 2013-14 Requested Budget.
- (2) As defined in the First Lien Bond Ordinance.
- (3) Operating expenses include the Bureau's share of the City's Post-Employment Retirement Benefits (OPEB) starting in FY 2007-08. There are no OPEB reporting requirements under Government Accounting Standards Board (GASB) rules prior to FY 2007-08. Beginning FY 2012-13, OPEB is excluded as a non-cash item in conformance with the Master Second Lien Bond Declaration.
- 4) Includes projected issuance of First Lien Bonds in FY 2014-15 and FY 2016-17 and projected issuance of 2013 Series A Bonds.
- (5) There are no outstanding General Obligations Bonds subsequent to the final principal payment on October 1, 2010.
- (6) The Second Lien Rate Stabilization Account was created with the issuance of the 2006 Series A Bonds. There were no Second Lien Bonds prior to FY 2006-07.

### FORECAST RATES AND CHARGES

To generate the operating revenues in the Bureau's financial forecast, the Bureau will need to increase its user charges. The following table presents the approved rates for FY 2012-13 and projected rates for FY 2013-14 through FY 2017-18 that generate the required revenues. These rates are based on the revenue requirements from the Bureau's financial plan and the cost allocation methodology of its cost-of-service rate model.

The Bureau assesses both a volumetric usage charge and a fixed monthly base charge. The average volumetric charge for retail users is forecast to increase from \$3.321 per ccf in FY 2012-13 to \$5.517 per ccf by FY 2017-18. This increase corresponds to an average annual increase of 10.7 percent. A monthly base charge is imposed on water services connected directly to the Water System. Such base charge is in addition to the rates charged for water usage. The fixed monthly base charge accounts for approximately 24 percent of the Bureau's user charge revenues. The total fixed monthly base charge for quarterly billed customers is projected to increase from \$10.04 per month in FY 2012-13 to \$16.68 per month by FY 2017-18. The typical 5 ccf single residential family monthly water bill is projected to increase from \$26.65 in FY 2012-13 to \$44.27 in FY 2017-18.

### Table 21 CITY OF PORTLAND, OREGON Water Bureau

### **Current and Forecast Water Rates and Water Bills**

Fiscal Year						
Ending June 30	2012-13	2013-14 (1)	2014-15	2015-16	2016-17	2017-18
WATER USAGE RATES						
Retail Volume Rate						
(per ccf) (2)	\$3.321	\$3.580	\$4.096	\$4.686	\$5.108	\$5.517
BASE CHARGE						
Total Base Charge per Bill	\$30.12	\$32.47	\$37.15	\$42.50	\$46.33	\$50.04
Quarterly Billed Customer per Month	\$10.04	\$10.82	\$12.38	\$14.17	\$15.44	\$16.68
Monthly Billed Customer	\$30.12	\$32.47	\$37.15	\$42.50	\$46.33	\$50.04
MONTHLY WATER BILLS						
Residential (5 ccf)	\$26.65	\$28.72	\$32.86	\$37.60	\$40.98	\$44.27
Medium Commercial (100 ccf)	\$362.22	\$390.47	\$446.75	\$511.10	\$557.13	\$601.74
Large Commercial (20,000 ccf)	\$66,450	\$71,632	\$81,957	\$93,763	\$102,206	\$110,390
Low Income Residential (5 ccf) (3)	\$13.33	\$14.36	\$16.43	\$18.80	\$20.49	\$22.14
<b>Retail Effective Rate Changes</b>	7.6%	7.8%	14.4%	14.4%	9.0%	8.0%

### Notes:

Source: City of Portland.

<sup>(1)</sup> Reflects rate schedule submitted for the FY 2013-14 Requested Budget. and is subject to City Council approval. Rates shown for future years are based on projections which may be updated or revised. Future year rates are subject to City Council review and approval.

<sup>(2)</sup> Applies to substantially all in-city retail customers.

<sup>(3)</sup> Bills for low income residential customers include a discount on water usage and the base charge.

### CITY ECONOMIC CHARACTERISTICS

The City, with an estimated population of 587,865 as of July 1, 2012, 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 a metropolitan area with an estimated population of approximately 2.2 million people as of July 1, 2012. 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.

### PORTLAND-VANCOUVER-BEAVERTON METROPOLITAN STATISTICAL AREA

The Portland-Vancouver-Beaverton Metropolitan Statistical Area (the "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, West Linn and Happy Valley. The cities of St. Helens and Scappoose are located in Columbia County. Yamhill County includes McMinnville and Newberg. Clark County contains Vancouver and Camas. Skamania County includes Stevenson, Carson and Skamania.

### **POPULATION**

The population for the City has increased steadily over the past decade, as shown in the table below.

Table 22 CITY OF PORTLAND, OREGON Population Estimate for the Last Ten Years

As of July 1	State of Oregon	City of Portland	MSA (1)	Multnomah County	Washington County	Clackamas County
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	556,370	2,082,240	692,825	489,785	361,300
2006	3,690,505	562,690	2,121,910	701,545	500,585	367,040
2007	3,745,455	568,380	2,159,720	710,025	511,075	372,270
2008	3,791,075	575,930	2,191,784	717,880	519,925	376,660
2009	3,823,465	582,130	2,216,785	724,680	527,140	379,845
2010	3,837,300	583,775	2,230,578	736,785	531,070	376,780
2011	3,857,625	585,845	2,245,400	741,925	536,370	378,480
2012	3,883,735	587,865	2,265,725	748,445	542,845	381,680
2003-2012 Compounded						
Annual Rate of Change	1.0%	0.8%	1.3%	1.1%	1.6%	0.9%
2008-2012 Compounded						
Annual Rate of Change	0.6%	0.5%	0.8%	1.0%	1.1%	0.3%

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

	1980	1990	2000	2010
State of Oregon	2,633,156	2,842,321	3,421,399	3,831,074
Multnomah County	562,647	583,887	660,486	735,334
City of Portland	368,139	438,802	529,121	583,776
Washington County	245,860	311,554	445,342	529,710
Clackamas County	241,911	278,850	338,391	375,992

### Notes:

Source: Washington State Office of Financial Management; Portland State University, Center for Population Research. Under Oregon 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.

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

### **INCOME**

Table 23 below shows personal income and per capita income for the MSA compared to similar data for the State and nation.

Table 23
CITY OF PORTLAND, OREGON
Total Personal Income and Per Capita Income
MSA, Oregon, and the United States

	Total Personal Income MSA	1	Per Capita Incom	e
Year	(millions)	MSA	Oregon	USA
2002	\$66,298	\$33,101	\$29,797	\$31,481
2003	68,222	33,705	30,582	32,295
2004	70,927	34,780	31,650	33,909
2005	74,750	36,158	32,557	35,452
2006	80,794	38,416	34,706	37,725
2007	85,305	39,903	35,950	39,506
2008	89,977	41,410	37,407	40,947
2009	85,103	38,565	35,159	38,637
2010	87,940	39,384	35,906	39,791
2011	93,449	41,302	37,527	41,560
2002-2011				
Compounded				
Annual Rate of				
Change	3.9%	2.5%	2.6%	3.1%

Source: U.S. Department of Commerce, Bureau of Economic Analysis, as of November 26, 2012.

### LABOR FORCE AND UNEMPLOYMENT

Table 24 below shows the annual average civilian labor force, employment level and unemployment level data that is available for the MSA for the period 2002 through 2011. For December 2012, the seasonally-adjusted unemployment rate for the MSA was 7.8 percent (7.5 percent not seasonally-adjusted) with a resident civilian labor force of 1,177,805. Table 25 below shows the seasonally-unadjusted, average annual unemployment rates for the MSA, the State and the United States for the period 2003 through 2012.

Table 24
CITY OF PORTLAND, OREGON
MSA Labor Force and Unemployment Rates<sup>(1)</sup>

		Unem		
	Resident Civilian		Percent of	Total
Year	Labor Force	Number	<b>Labor Force</b>	<b>Employment</b>
2003	1,090,119	90,082	8.3%	1,000,037
2004	1,089,204	76,576	7.0	1,012,628
2005	1,097,592	64,282	5.9	1,033,310
2006	1,121,350	56,388	5.0	1,064,962
2007	1,142,519	55,274	4.8	1,087,245
2008	1,169,791	69,708	6.0	1,100,083
2009	1,185,625	127,688	10.8	1,057,937
2010	1,189,827	126,187	10.6	1,063,640
2011	1,195,738	109,302	9.1	1,086,436
2012	1,194,777	96,225	8.1	1,098,552

### Notes:

Source: Oregon Employment Department as of January 2013.

Table 25
CITY OF PORTLAND, OREGON
Average Annual Unemployment
MSA, Oregon, and the United States
(Not Seasonally Adjusted)

		State of	
Year	MSA	Oregon	USA
2003	8.3%	8.1%	6.0%
2004	7.0	7.3	5.5
2005	5.9	6.2	5.1
2006	5.0	5.3	4.6
2007	4.8	5.2	4.6
2008	6.0	6.5	5.8
2009	10.8	11.1	9.3
2010	10.6	10.8	9.6
2011	9.1	9.5	8.9
2012	8.1	8.6	8.1

Source: Oregon Employment Department as of January 2013.

<sup>(1)</sup> Includes non-agricultural wage and salary, self-employed, unpaid family workers, domestics, agricultural workers and labor disputants. Not seasonally adjusted.

### **EMPLOYMENT BY INDUSTRY**

Non-manufacturing employment (including government) accounts for about 89 percent of non-farm employment in the Portland area. The Portland metropolitan area's manufacturing employment, accounting for the remaining 11 percent of area employment, is largely based in the metals and computer and electronic equipment sectors.

Table 26 CITY OF PORTLAND, OREGON Portland-Vancouver-Beaverton, Oregon MSA Non-Farm Wage and Salary Employment <sup>(1)</sup>(000)

Industry	2008	2009	2010	2011	2012
Total nonfarm employment	1,034,300	973,800	965,500	975,900	1,001,000
Total private	887,300	825,700	817,700	830,700	856,100
Manufacturing	123,200	109,100	106,700	108,300	113,000
Durable goods	93,500	81,700	79,300	81,000	84,500
Wood product manufacturing	4,800	3,700	3,500	3,400	3,200
Primary metal manufacturing	7,100	5,800	5,600	5,800	5,300
Fabricated metal manufacturing	13,400	11,100	11,100	11,300	12,400
Machinery manufacturing	8,300	7,000	7,000	7,400	8,500
Computer/electronic manufacturing	35,900	33,900	33,200	34,300	35,300
Transportation equipment manufacturing	8,600	7,000	6,300	6,500	7,000
Nondurable goods	29,600	27,400	27,300	27,400	28,500
Food manufacturing	9,200	9,100	9,300	9,500	10,100
Paper manufacturing	4,500	3,900	3,600	3,300	3,200
Non-Manufacturing	764,200	716,900	711,100	722,600	743,100
Construction and mining	62,400	50,600	45,800	46,000	50,700
Trade, transportation, and utilities	203,900	189,700	186,700	190,600	194,600
Wholesale Trade	57,800	54,400	52,500	53,000	56,200
Retail trade	108,500	101,100	101,100	103,800	104,900
Transportation, warehousing, and utilities	37,600	34,200	33,100	33,900	33,500
Information	24,600	22,900	22,300	22,200	22,100
Financial activities	67,800	63,800	61,800	62,100	61,800
Professional and business services	136,500	124,900	126,600	129,700	133,300
Educational and health services	132,600	135,200	139,000	143,200	144,700
Leisure and hospitality	99,300	94,500	93,900	94,700	101,400
Other services	37,100	35,300	35,000	34,100	34,500
Government	147,000	148,100	147,800	145,200	144,900

### Notes:

 $\underline{Source} \hbox{:} \ \ State of Oregon, Employment Department as of January 2013.}$ 

<sup>(1)</sup> Totals may not sum due to rounding.

## Table 27 CITY OF PORTLAND, OREGON Major Employers in the MSA

		<b>Estimated</b>
Employer	Product or Service	Employment
<b>Private Employers</b>		
Intel Corporation	Computer and electronic products	16,250
Providence Health System	Health care & health insurance	14,389
Fred Meyer Stores	Grocery & retail variety chain	10,389
Legacy Health System	Health care	9,662
Kaiser Foundation of the Northwest	Health care	9,195
NIKE Inc.	Sports shoes and apparel	7,000
Wells Fargo	Bank	4,578
U.S. Bank	Bank & holding company	4,007
Daimler Trucks North America (1)	Heavy duty trucks	3,900
Southwest Washington Medical Center	Health care	3,309
Xerox Corp.	Document systems	3,000
The Standard	Insurance	2,352
Portland General Electric	Utilities	2,100
Public Employers		
U.S. Federal Government	Federal government	13,900
Oregon Health and Science University	Health care & education	13,733
City of Portland	Government	8,951
State of Oregon	State government	7,559
Portland School District	Education	6,544
Evergreen School District	Education	6,282
Multnomah County	Government	4,500
Portland State University	Education	4,224
Beaverton School District	Education	4,073
Portland Community College	Education	3,205
Vancouver School District	Education	3,129
TriMet	Mass transit	2,476
		•

### Notes:

Source: Portland Business Journal, May 18, 2012.

<sup>(1)</sup> In January 2013, Daimler Trucks North America announced plans to lay off 250 workers in Portland in response to an industry-wide slowdown in truck orders.

### **REAL ESTATE**

### Industrial

A diverse mix of industrial properties are located throughout the Portland metropolitan area for all types of industrial use, including more than 160 million square feet of industrial and business park space. On the eastside, the Columbia Corridor is the largest industrial area in Oregon, containing approximately 22,600 acres or 28 square miles along an 18-mile stretch of land that runs along the southern shore of the Columbia River. The Columbia Corridor includes the Rivergate Industrial District, marine terminals, and Portland International Airport ("PDX"). The Rivergate Industrial Park is a 2,800-acre area owned by The Port of Portland (the "Port") in North Portland. In addition to Rivergate's access to the Columbia River and PDX, the area qualifies local businesses for participation in the Enterprise Zone and related tax incentives.

Just west of the City, the Sunset Corridor has emerged as the center for Oregon's high technology industry, including Intel's approximately 16,000-employee campuses. This area parallels a major east/west highway (U.S. Highway 26) in the western metropolitan area. Another large submarket for industrial and flex space is the Interstate 5 ("I-5") Corridor, which extends from S.W. Portland to the City of Wilsonville along I-5.

Portland's industrial sector has endured the economic downturn and is showing a moderate increase in leasing activity according to Cushman & Wakefield in their publication *Marketbeat—Industrial Snapshot, Portland, OR, Q43 2012*. Cushman & Wakefield report that the overall vacancy rate in the third and fourth quarters of 2012 has flattened. Ending fourth quarter vacancy was 7.3 percent, the same as the third quarter vacancy rate, but down 0.4 percentage points from the fourth quarter 2011 rate of 7.7 percent. Cushman & Wakefield note that rental rates have stabilized in almost all submarkets and product types, with overall net absorption of approximately 2.3 million square feet through the fourth quarter of 2012. A total of 370,447 square feet of new construction is reported to be underway.

### Office

The Portland metropolitan area office market is home to diverse architectural styles ranging from Class-A office space to unique historical buildings in downtown Portland.

The office market is showing signs of the lingering effects of the economic recession, as reported in *Marketbeat—Office Snapshot*, *Portland, OR, Q4 2012* prepared by Cushman & Wakefield. The fourth quarter overall vacancy rate for the Portland region was 13.9 percent, up from the fourth quarter 2011 vacancy rate of 13.6 percent. The fourth quarter 2012 overall vacancy rate in the downtown central business district decreased to 10.7 percent from 11.1 percent in the third quarter 2012. Overall absorption in the central business district totaled negative 285,252 square feet through the fourth quarter of 2012. The suburban market was weaker, with a fourth quarter 2012 overall vacancy rate of 17.3 percent. Class A office space in the downtown continues to fare better than the rest of the market, with asking rents averaging \$27. 20 per square foot compared to \$23.29 per square foot for the Class A space in the Portland region's suburban market.

### **Housing**

The year-to-date median selling price of a home in the Portland metropolitan area through December 2012 was \$235,500, up 6.3 percent from the December 2011 year-to-date price of \$221,000, according to the Realtors Metropolitan Area Multiple Listing Service ("RMLS"). Through December 2012, homes in the Portland metropolitan area were on the market an average of 112 days during the year. According to RMLS, through December 2012, the Southeast, West Portland, and Northeast regions were the most active residential real estate areas, with 2,973, 2,560, and 2,378 closed sales, respectively. Portland metropolitan area closed sales year-to-date were up 19.1 percent from the same period in 2011.

The table below compares the median home sale price for the fourth quarter of 2011 and 2012 in the Portland metropolitan region and with the nation.

Table 28
CITY OF PORTLAND, OREGON
Median Home Sale Price
(U.S. and Portland Metropolitan Area)

	4th Quarter	4th Quarter	Percent
Region	2011	2012	Change
U.S.	\$162,600	\$178,900	10.0%
Portland Metro. Area	218,900	242,000	10.6%

Source: National Association of Realtors and RMLS.

The market for condominiums, while improving nationwide, continues to deteriorate as a result of the downturn in the housing market as shown in the following table. Portland's decrease in value is largely due to the increased inventory that has come on the market over the past few years.

Table 29
CITY OF PORTLAND, OREGON
Median Condo/Coop Sale Price
(U.S. and Portland Metropolitan Area)

	4th Quarter	4th Quarter	Percent
Region	2011	2012	Change
U.S.	\$160,400	\$179,900	12.2%
Portland Metro. Area	146,700	148,800	1.4%

Source: National Association of Realtors and RMLS.

Residential building permits are an indicator of growth in a region. The number and value of new single-family and multi-family residential building permits for the City are shown below.

Table 30
CITY OF PORTLAND, OREGON
New Single-family and Multi-family
Residential Construction Permits

	<b>New Single Family</b>		New Multi-Family	
Year	No. of Permits	Value	No. of Permits	Value
2001	1,040	\$159,218,264	102	\$46,446,402
2002	1,088	169,816,560	110	92,457,354
2003	1,093	176,408,264	198	195,489,464
2004	956	162,215,542	161	153,283,224
2005	981	172,372,705	196	247,646,057
2006	1,256	232,917,661	164	241,125,419
2007	1,205	236,732,683	179	346,708,925
2008	648	126,171,068	73	410,957,333
2009	427	86,645,801	15	44,978,728
2010	435	95,809,473	30	86,511,573
2011	451	101,302,272	44	92,746,314

Source: U.S. Census Bureau as of May 18, 2012.

#### TRANSPORTATION AND DISTRIBUTION

Location and topography have established the City 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 geographic and, therefore, economic advantages for the shipment of freight.

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. The Port is the largest wheat export port in the United States and is the largest volume auto handling port and mineral bulks port on the West Coast. Leading exports include wheat, soda ash, potash and hay. Leading imports include automobiles, petroleum products, steel and limestone.

In 2012, 544 ocean-going vessels made calls at Port facilities. Total maritime tonnage in 2012 decreased by 7.7 percent to 12.35 million short tons in 2012 compared to 13.38 million in 2011.

The Columbia River ship channel extends from the Portland Harbor to the Pacific Ocean 110 miles downstream. In 2005, the Columbia River Channel Deepening Project was initiated to improve navigation to accommodate the current fleet of international bulk cargo and container ships and to improve the condition of the Columbia River estuary through the completion of other environmental restoration projects. The project deepened the Columbia River by three feet, to 43 feet along a 103-mile stretch of river from the Pacific Ocean to Portland and was completed in November 2010.

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 two primary barge lines providing service between the upriver ports and Portland. 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 Cascade mountains.

Portland 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.

PDX handled approximately 14.4 million passengers in 2012, with more than 400 flights daily. This includes nonstop service on international flights to Amsterdam, Netherlands; Tokyo, Japan; Calgary, Alberta; Vancouver, British Columbia; and Toronto, Ontario. In 2012, 211,873 short tons of cargo and 7,168 short tons of mail were handled by PDX. 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 two by-pass routes, Interstate 205 and Interstate 405, within and around the City. 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 throughout the Portland metropolitan area. During TriMet's fiscal year, from July 2011 through June 2012, passengers boarded a TriMet bus or train approximately 102 million times.

TriMet's light rail system ("MAX") connects the cities of Portland, Gresham, Beaverton and Hillsboro, and PDX. In 2009, TriMet completed an 8.3 mile extension of the light rail line, providing service along Interstate-205 between Clackamas Town Center through downtown Portland to Portland State University. Tri-Met is currently underway with the Portland-Milwaukie light rail extension, which will connect downtown Portland to Milwaukie. This 7.3 mile line is expected to be operational in 2015. In 2008, TriMet began service on the Washington County Commuter Rail, which runs from Beaverton to Wilsonville.

The Portland Streetcar connects South Waterfront area along the Willamette River with the Pearl District and Northwest Portland. The Portland Streetcar is owned and operated by the City, and has entered into contracts with TriMet for train operators and mechanics. An extension of the streetcar line to Portland's east side is currently underway. The extension will cross the Willamette River using the Broadway Bridge, travel through the Lloyd District, continue south along Martin Luther King, Jr. Boulevard, and

make a loop at either SE Mill or Stephens Street before returning back along Grand Avenue. The project was completed in September 2012.

The Portland Aerial Tram ("Tram") opened in January 2007. The Tram, which is owned by the City and operated by Oregon Health and Science University ("OHSU"), links OHSU's North Macadam offices and its Marquam Hill campus.

#### 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 Center Stage, Portland Art Museum, Oregon Historical Society Museum, Children's Museum, Oregon Museum of Science and Industry, Forest Discovery Center (formerly World Forestry Center), Japanese Gardens, International Rose Test Gardens, the Lan Su 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. 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.

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.

The National Basketball Association ("NBA") Portland Trail Blazers play at the Rose Garden Arena complex (which includes the Veteran's Memorial Coliseum), as do the major-junior Western Hockey League ("WHL") Portland Winterhawks. JELD-WEN Field (formerly PGE Park) was recently renovated for major league soccer and is the home of the Major League Soccer ("MLS") Portland Timbers and National Women's Soccer League ("NWSL") Portland Thorns FC.

#### **HIGHER EDUCATION**

Within the Portland metropolitan area are several post-secondary educational systems. Portland State University ("PSU"), the largest university in the Oregon University System, 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 220 undergraduate, masters, and doctoral programs. Enrollment for the Fall 2012 term was approximately 28,731 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, also within the Oregon University System, 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. 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. Enrollment at the Portland campus for 2011-12 was approximately 1,986 medical, dental, nursing, science, and allied health students.

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

#### **UTILITIES**

#### **Electric Power and Natural Gas**

Electricity is provided by Portland General Electric Company ("PGE") and Pacific Power. Low-cost hydroelectric power provides a substantial portion of the area's energy requirements. NW Natural distributes natural gas.

#### **Communications**

Telephone services are provided by CenturyLink and, in some areas, Frontier. The Portland metropolitan area is also served by three cable service providers, primarily Comcast within the Portland city limits, and Frontier and Reliance Connects in other parts of the region.

#### Water, Sewer, and Wastewater

The City operates the water supply system that delivers drinking water to residents of Portland. About 900,000 people, almost one-quarter of the state's population, are served by the City's water system on a wholesale and retail basis within its 225 square mile service area. The primary water source is the Bull Run Watershed, located in the foothills of the Cascades west of Mt. Hood. The City also uses groundwater as a supplemental water supply.

The City also owns, operates, and maintains sanitary and storm water collection, transportation, and treatment systems within its boundaries. The City provides sanitary sewer service to approximately 588,000 people, numerous commercial and industrial facilities, and several wholesale contract customers located adjacent to the City.

#### **AGRICULTURE**

Because the City is the primary urban center in the State, agriculture is not a major industry in the greater metropolitan area. The metropolitan area, however, accounted for approximately 18.4 percent of the State's Gross Farm and Ranch Sales based on 2011 estimates from the Oregon State University Extension Economic Information Office. The 2011 Gross Farm and Ranch Sales in Clackamas County was \$332,940,000; Washington County was \$284,778,000; Yamhill County was \$259,013,000; Multnomah County was \$55,103,000; and Columbia County was \$26,469,000 as estimated by the Oregon State University Extension Service.

#### 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.

Because many proposed initiative measures are submitted that 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.

# PROCESS FOR QUALIFYING STATE-WIDE INITIATIVES TO BE PLACED ON THE BALLOT

To place a proposed state-wide initiative on a general election ballot, the proponents must submit to the Secretary of State initiative petitions signed by the 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. Any elector may sign an initiative petition for any measure on which the elector is entitled to vote. State-wide initiatives may only be filed for general elections in even-numbered years.

A state-wide 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.

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.

Historically, a larger number of initiative measures have qualified for the ballot than have been approved by the electors. According to the Elections Division of the Secretary of State, the total number of initiative petitions that qualified for the ballot and the numbers that passed in recent general elections are as follows:

Table 31
CITY OF PORTLAND, OREGON
Statewide Initiative Petitions that Qualified and Passed
2002-2012

	Number of	Number of
Year of	Initiatives that	Initiatives that
<b>General Election</b>	<b>Qualified</b>	<b>Passed</b>
2002	7	3
2004	6	2
2006	10	3
2008	8	0
2010	4	2
2012	7	2

Source: Elections Division, Oregon Secretary of State.

#### FUTURE STATE-WIDE 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.

#### LOCAL INITIATIVES

Article IV, Section 1 and Article XI, Section 2 of the Oregon Constitution and state statutes grant the voters in the City the initiative power to amend the City Charter or City ordinances, and to refer City Ordinances. A petition to refer a City measure must be signed by six percent of the registered voters in the City. A petition to initiate a City measure must be signed by nine percent of the registered voters in the City. No initiative or referendum petitions are currently being circulated that would limit the financial powers of the City. The City Council or a Charter Commission may also refer measures directly to voters. Under current law, local initiative and referendum elections may be held only in March, May, September and November, unless the City Council calls for a special election due to public interest in prompt resolution.

#### TAX MATTERS

#### OPINION OF BOND COUNSEL

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the City, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2013 Series A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the 2013 Series A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the City in connection with the 2013 Series A Bonds, and Bond Counsel has assumed compliance by the City with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the 2013 Series A Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel to the City, under existing statutes, interest on the 2013 Series A Bonds is exempt from State of Oregon personal income tax.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the 2013 Series A Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to its attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the 2013 Series A Bonds, or under state and local tax law.

# CERTAIN ONGOING FEDERAL TAX REQUIREMENTS AND COVENANTS

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the 2013 Series A Bonds in order that interest on the 2013 Series A Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the 2013 Series A Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the 2013 Series A Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The City has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the 2013 Series A Bonds from gross income under Section 103 of the Code.

#### CERTAIN COLLATERAL FEDERAL TAX CONSEQUENCES

The following is a brief discussion of certain collateral Federal income tax matters with respect to the 2013 Series A Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a 2013 Series A Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the 2013 Series A Bonds.

Prospective owners of the 2013 Series A Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the 2013 Series A Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

#### ORIGINAL ISSUE DISCOUNT

"Original issue discount" ("OID") is the excess of the sum of all amounts payable at the stated maturity of a 2013 Series A Bond (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity means the first price at which a substantial amount of the 2013 Series A Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of 2013 Series A Bonds is expected to be the initial public offering price set forth on the inside cover page of the Official Statement. Bond Counsel further is of the opinion that, for any 2013 Series A Bonds having OID (a "Discount Bond"), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the 2013 Series A Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such 2013 Series A Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

#### **BOND PREMIUM**

In general, if an owner acquires a 2013 Series A Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the 2013 Series A Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that 2013 Series A Bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

#### INFORMATION REPORTING AND BACKUP WITHHOLDING

Information reporting requirements apply to interest paid on tax-exempt obligations, including the 2013 Series A Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a 2013 Series A Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the 2013 Series A Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

#### **MISCELLANEOUS**

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the 2013 Series A Bonds under Federal or state law or otherwise prevent beneficial owners of the 2013 Series A Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the 2013 Series A Bonds. For example, the Fiscal Year 2014 Budget proposed on April 10, 2013, by the Obama Administration recommends a 28% limitation on itemized deductions and "tax preferences," including "tax-exempt interest." The net effect of such proposal, if enacted into law, would be that an owner of a Bond with a marginal tax rate in excess of 28% would pay some amount of federal income tax with respect to the interest on such Bond. The enactment of such proposal could also impact the tax treatment of interest on the 2013 Series A Bonds for state law purposes.

Prospective purchasers of the 2013 Series A Bonds should consult their own tax advisors regarding the foregoing matters.

#### **RATING**

The 2013 Series A Bonds have been rated "Aa1" by Moody's Investors Service. Such rating reflects only the views of such organization 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., 250 Greenwich Street, New York, New York, 10007. 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 rating will continue for any given period of time or that such rating 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 2013 Series A Bonds.

#### FORWARD LOOKING STATEMENTS

This Official Statement contains statements relating to future results that are "forward looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement and its appendices, the words "estimate," "forecast," "intend," "expect," "projected," and similar expressions identify forward looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward looking statements. Any forecast is subject to such uncertainties. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

#### **UNDERWRITING**

On behalf of the Underwriters listed on the cover of this Official Statement, Citigroup Global Markets Inc. has agreed, subject to certain conditions, to purchase all of the 2013 Series A Bonds, if any are to be purchased, at a price of \$286,953.284.31 (which is equal to the aggregate principal amount of the 2013 Series A Bonds of \$253,635,000.00, less an Underwriter's Discount of \$741,079.29, plus an original issue premium of \$34,295,346.90 and less an original issue discount of \$235,983.30).

After the initial public offering, the public offering prices may be varied from time to time.

Citigroup Inc., parent company of Citigroup Global Markets Inc., has entered into a retail brokerage joint venture with Morgan Stanley & Co. LLC. As part of the joint venture, Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, the Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2013 Series A Bonds.

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association ("WFBNA"). WFBNA has entered into an agreement (the "Distribution Agreement") with Wells Fargo Advisors, LLC ("WFA") for the retail distribution of certain municipal securities offerings, including the 2013 Series A Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting with respect to the 2013 Series A Bonds with WFA. WFBNA and WFA are both subsidiaries of Wells Fargo & Company.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriters and their respective affiliates may have, from time to time, performed and may in the future perform, various investment banking services for the City, for which they received or will receive customary fees and expenses. In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the City.

#### LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the 2013 Series A Bonds by the City are subject to the approving opinion of Hawkins Delafield & Wood LLP, Portland, Oregon, Bond Counsel. Bond Counsel has reviewed this Official Statement only to confirm that the portions of it describing the 2013 Series A Bonds, the First Lien Bond Ordinance, the 2013 Series A Bond Declaration, and the authority to issue the 2013 Series A Bonds conform to the 2013 Series A Bonds and the applicable laws under which they are issued. The statements made in this Official Statement under the captions "THE 2013 SERIES A BONDS" and "TAX MATTERS" 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. Certain other legal matters have been passed upon for the Underwriters by Orrick, Herrington & Sutcliffe LLP, Portland, Oregon, Underwriter's Counsel.

#### LITIGATION

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

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

On December 6, 2011, the City received a complaint in *Anderson et al. v. City of Portland*, Multnomah County Circuit Court case No. 1112-15957. The complaint challenges certain expenditures by the Bureau and the Bureau of Environmental Services and asks for an order requiring the City to reimburse the Water Fund and Sewage Disposal Fund for those expenditures. The complaint does not allege the amount in dispute or the source of the reimbursement. The City estimates that if plaintiffs prevailed on all claims and a court ordered the relief requested, the reimbursement amount could exceed \$50 million. The City has not identified potential sources of any court-ordered reimbursement, but such sources could include any legally available resources of the City, including the General Fund. The City will vigorously defend the lawsuit and believes that it is unlikely that the plaintiffs will prevail on the majority of the claims alleged.

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

In December 2000, Portland Harbor was listed as a federal Superfund site. Total costs of cleaning up the site and restoration of natural resources will be estimated at the completion of a Remedial Investigation and Feasibility Study ("RI/FS") under the federal Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA"). The City can not predict when the RI/FS will be complete. It is anticipated that allocation of liability for cleanup to various parties will be determined after a remedial action is selected. The City may also have liabilities to Natural Resource Trustees of the Willamette River (including federal, state and tribal resource agencies) for damages to natural resources in Portland Harbor. Potential resource damages have not been quantified by the trustees and cannot be estimated until the conclusion of trustee activities. The City can not predict when such trustee activities will be complete. Because the Bureau owns land and operates facilities within the Portland Harbor Investigation area, the Bureau may be liable for a portion of the cleanup and restoration activities, as well as costs for restoration of natural resources. The City believes that an estimate of maximum City exposure of the Portland Harbor cleanup cannot be made but could be material to the period in which it is realized. The Bureau's exposure would only be a small part of any final City-wide obligations.

#### CERTIFICATE WITH RESPECT TO OFFICIAL STATEMENT

At the time of the original delivery of the 2013 Series A 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 2013 Series A 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 2013 Series A 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 Underwriters or owners of any of the 2013 Series A 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 a Continuing Disclosure Certificate substantially in the form attached hereto as Appendix F for the benefit of the 2013 Series A 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 2013 Series A 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 2013 Series A 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/ B. JONAS BIERY
Debt Manager
Office of Management and Finance





# MASTER SECOND LIEN WATER SYSTEM REVENUE BOND DECLARATION

City of Portland, Oregon

Executed by the Debt Manager of the City of Portland, Oregon  $As \ of \ the \ 2^{nd} \ day \ of \ May, \ 2013$ 

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# MASTER SECOND LIEN WATER SYSTEM REVENUE BOND DECLARATION

#### THIS MASTER SECOND LIEN WATER SYSTEM REVENUE BOND

DECLARATION is executed as of May 2, 2013, by the Debt Manager of the City of Portland, Oregon pursuant to the authority granted to the Debt Manager by City Ordinance No. 185916 to establish the terms under which the City may issue obligations that are secured by a second lien on the Net Revenues of the City's Water System.

#### Section 1. Recitals.

# The City recites:

- 1.1. The City has previously issued revenue bonds that are secured by a first lien on the net revenues of the City's Water System under City Ordinance 174241, as amended, and revenue bonds that are secured by a second lien on the net revenues of the City's Water System under a master declaration that is dated as of September 21, 2006 (the "2006 Second Lien Declaration."
- 1.2. The City enacted Ordinance No. 185916 on March 6, 2013, authorizing the City to issue revenue bonds that are secured by the revenues of the Water System: to refund all second lien bonds that are currently outstanding under the 2006 Second Lien Declaration; to refund outstanding first lien bonds to obtain debt service savings, to provide up to \$161,500,000 of proceeds for water system projects; and, to provide additional amounts to fund reserves and pay costs related to the bonds (collectively, the "Project").
- 1.3. The City is issuing its 2013 Series A Bonds on the date of this Master Second Lien Water System Revenue Bond Declaration to finance the Project. The 2013 Series A Bonds are being issued pursuant to the First Supplemental Bond Declaration.
- 1.4. This Master Second Lien Water System Revenue Bond Declaration replaces the 2006 Second Lien Declaration and establishes the basic provisions that apply to the 2013 Series A Bonds and to obligations the City subsequently issues that are secured by a second lien on the Net Revenues of the Water System.

### **Section 2. Definitions**

Unless the context clearly requires otherwise, capitalized terms that are used in this Master Declaration and are defined in this Section 2 shall have the meanings defined for those terms in this Section 2, and capitalized terms that are used in this Master Declaration but are not defined in this Section 2 shall have the meanings defined for those terms in the First Lien Bond Ordinance.

"2013 Series A Bonds" means the City's Second Lien Water System Revenue Bonds, 2013 Series A issued pursuant to the First Supplemental Bond Declaration.

- "Adjusted Net Revenues" means the Net Revenues, adjusted for purposes of Section 6.1 as provided in Section 6.3.
- "Adjusted Stabilized Net Revenues" means the Net Revenues, adjusted for purposes of Section 6.1 as provided in Section 6.4.
- "Agreement for Exchange of Interest Rates" 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 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.
- "Annual First Lien Bond Debt Service" means the "Annual Debt Service" determined under the First Lien Bond Ordinance, as that ordinance may be amended from time to time.
- "Annual Second Lien Bond Debt Service" "means sum of:(1) the amounts of any transfers to the Second Lien Bond Reserve Account that are described in Section 3.1.D and Section 3.1.E; 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 Agreement for Exchange of Interest Rates shall increase Annual Second Lien Bond Debt Service, and Reciprocal Payments to be received in the Fiscal Year under a Parity Agreement for Exchange of Interest Rates 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; and,
- (g) Federal Subsidies shall be subtracted from the interest due on Federal Subsidy Obligations that are Second Lien Obligations as provided in Sections 5.4 and 6.6.
- "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.

"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.

"Capital Charge Borrowing" means a borrowing that is secured by Capital Charges, such as a City local improvement district bond issue, for which the City has made an election, in accordance with Section 5.6, to treat the Capital Charge Proceeds as a Gross Revenue.

"Capital Charge Proceeds" means the net proceeds of Capital Charge Borrowings. For purposes of this definition, "net proceeds" means the proceeds of the Capital Charge Borrowings available to be deposited in the Water Enterprise Fund and used as Gross Revenues, after payment of costs of issuance, credit enhancement fees, accrued and capitalized interest, and similar costs, and funding of reserves.

"Capital Charge Revenues" means all Capital Charges except Committed Capital Charges.

"Capital Charges" means all system development charges, assessments for local improvements and similar charges which have been imposed on persons or property to recover capital related costs of the Water System, and which are deposited in the Water Enterprise Fund.

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

"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 an Agreement for Exchange of Interest Rates which is either fixed in amount or is determined according to a formula set forth in the Agreement for Exchange of Interest Rates.

"Closing" means the date on which a Series of Bonds is delivered in exchange for payment.

"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 the Annual First Lien Debt Service plus the Annual Second Lien Bond Debt Service.

"Committed Capital Charges" means Capital Charges which are pledged or otherwise committed to pay Capital Charge Borrowings. For purposes of this definition, merely pledging Net Revenues to secure a borrowing or committing Net Revenues to pay a borrowing will not cause Capital Charges to become Committed Capital Charges.

"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 Water Construction Fund in the Water Enterprise 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, at the time the Credit Facility is issued, one of the two highest rating categories by a Rating Agency that 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 City Treasurer, 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.

"Defeasance Obligations" means (i) direct, noncallable obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury and principal-only and interest-only strips that are issued by the U.S.

Treasury); or (ii) noncallable obligations the principal of and interest on which are unconditionally guaranteed by the United States of America; or (iii) any of the noncallable obligations of the following agencies:

- (a) Senior, unsubordinated Federal Home Loan Mortgage Corp. (FHLMC) debt obligations;
- (b) Senior, unsubordinated Federal Home Loan Banks (FHL Banks) consolidated debt obligations;
- (c) Senior, unsubordinated Federal National Mortgage Association (FNMA) debt obligations;
- (d) Senior, unsubordinated Farm Credit System consolidated system wide bonds and notes;
- (e) Senior, unsubordinated Resolution Funding Corp. (REFCORP) debt obligations, including strips by the Federal Reserve Bank of New York; and,
  - (f) Financing Corp (FICO) debt obligations.

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

"Estimated Average Interest Rate" means the interest rate that Variable Rate Obligations are assumed to bear. "Estimated Average Interest Rate" shall be calculated as provide in Sections 5.2 and 6.8.

"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 5.3.

"Event of Default" means any event specified in Section 10.2 of this Master Declaration.

"Federal Subsidy" means a debt service subsidy payment that the City is entitled to receive from the United States for Federal Subsidy Obligations.

"Federal Subsidy Obligations" means First Lien Bonds or Second Lien Bonds for which the City is eligible to receive Federal Subsidies that are similar to the interest subsidies that were available for Build America Bonds.

"First Lien Bond Account" means the "Revenue Bond Account" in the Water Enterprise Fund that is established in the First Lien Bond Ordinance to pay First Lien Bonds.

"First Lien Bond Ordinance" means City Ordinance 174241, as it has been amended and may be amended from time to time in accordance with its terms and Section 9.4 of this Master Declaration. City Ordinance 174241 describes the terms under which the First Lien Bonds may be issued.

"First Lien Bond Reserve Account" means the "Revenue Bond Reserve Account" in the Water Enterprise Fund that is established in the First Lien Bond Ordinance to hold reserves for the First Lien Bonds.

"First Lien Bonds" refers to obligations that are defined as "Bonds" in the First Lien Bond Ordinance.

"First Supplemental Bond Declaration" means the First Supplemental Bond Declaration that is dated the same date as this Master Declaration, and that specifies the terms of the 2013 Series A 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.

"Gross Revenues" means all revenues, fees and charges resulting from the operation of the Water System, including Capital Charge Revenues and Capital Charge Proceeds, revenues from product sales and interest earnings on Gross Revenues in the Water Enterprise Fund. However, the term "Gross Revenues" shall not include:

- (a) 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;
  - (b) Committed Capital Charges;
- (c) 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;
  - (d) The proceeds of any borrowing (other than Capital Charge Proceeds);
- (e) The proceeds derived from the sales of assets pursuant to Section 9.9 of this Master Declaration;
- (f) Any ad valorem or other taxes imposed by the City (except charges or payments for Water System services which become "taxes" within the meaning of Article XI, Section 11b of the Oregon Constitution only because they are imposed on property);
- (g) Any income, fees, charges, receipts, profits or other moneys derived by the City from its ownership or operation of any Separate Utility System; and
  - (h) Federal Subsidies.

"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.

"Junior Lien Obligations" means obligations having a lien on the Net Revenues which is subordinate to the lien of the Second Lien Bonds. Restrictions on Junior Lien Obligations are described in Section 7.

"Junior Lien Obligations Account" means the Junior Lien Obligations Account of the Water Enterprise Fund which is described in Section 4.4.

"Master Declaration" means this Master Second Lien Water System Revenue Bond Declaration, including any amendments made pursuant to Section 11.

"Maximum Annual Second Lien Bond Debt Service" means the greatest amount of Annual Second Lien Bond Debt Service that will be due in any Fiscal Year, beginning with the

remainder of 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 will be 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.

"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 Water System under generally accepted accounting principles, lease payments that are treated as Operating Expenses pursuant to Section 5.5 and the portion of City pension bond debt service that is allocable to the Water System. 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, implicit subsidies in connection with other post employment benefits and any other non-cash expenses;
- (d) All amounts eligible to be treated for accounting purposes as payments for capital expenditures, and all amounts that were expected, at the time they were spent, to be treated for accounting purposes as payments for capital expenditures but were not so treated because of subsequent changes in circumstances (such as expenditures for a project that was being constructed to satisfy regulatory requirements of a state or a federal agency, but were not so treated because the city subsequently obtained a variance allowing the city to terminate the project);
- (e) Interest and other debt service payments, paying agent fees, broker-dealer fees and similar charges for the maintenance of borrowings;
  - (f) The expenses of owning, operating or maintaining any Separate Utility System;
- (g) 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 Water System;
  - (h) Extraordinary non-recurring expenses of the Water System;
- (i) Expenditures allocable to any other funding source which does not constitute Gross Revenues of the Water System; or,
- (j) Franchise fees and similar charges imposed by the City on the Water System or its operations.

"ORS" means the Oregon Revised Statutes.

"Outstanding" refers to: (1) all First Lien Bonds except First Lien Bonds that have been defeased pursuant to the defeasance provisions in the First Lien Bond Documents and First Lien Bonds that have matured and not been presented for payment (provided sufficient funds to pay those First Lien Bonds have 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

12 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 Agreement for Exchange of Interest Rates" means an Agreement for Exchange of Interest Rates which qualifies as a Parity Second Lien Obligation in accordance with Section 6.6.

"Parity Second Lien Obligation" means any obligation issued after the 2013 Series A Bonds that is secured by a second lien on the Net Revenues and is issued in compliance with Section 6, including any Parity Agreement for Exchange of Interest Rates.

"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 Account" means the Rate Stabilization Account described in Section 4.5 of this Master Declaration.

"Rating Agency" means Fitch Investors Service, Inc., Moody's Investors Service, Standard & Poor's Corporation, 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 an Agreement for Exchange of Interest Rates 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 Agreement for Exchange of Interest Rates.

"Reciprocal Payor" means a party to an Agreement for Exchange of Interest Rates (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 Agreement for Exchange of Interest Rates.

"Record Date" means a date after which the Paying Agent is not required to take into account transfers of ownership of Second Lien Bonds that are not in BEO form. Unless otherwise provided in the proceedings for a Series of Second Lien Bonds, the Record Date shall be the fifteenth (15th) day of the month preceding the month in which an Interest Payment Date is due, 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 Requirement" means a set of rules for funding a subaccount in the Second Lien Bond Reserve Account as those rules may be described in a Supplemental Declaration for Second Lien Bonds.

"Reserve Surety" means a surety or other agreement to provide funds to the City to pay Second Lien Bonds that are secured by a particular subaccount in the Second Lien Bond Reserve Account, if amounts in the Second Lien Bond Account are not sufficient to pay those Second Lien Bonds.

"Second Lien Bond Account" means the Second Lien Bond Account described in Section 4.2 of this Master Declaration.

"Second Lien Bond Reserve Account" means the Second Lien Bond Reserve Account in the Sinking Fund described in Section 4.3 of this Master Declaration.

"Second Lien Bonds" means the 2013 Series A Bonds and any Parity Second Lien Obligations.

"Separate Utility System" means any utility property which is declared by the City Council to constitute a system which is distinct from the Water System in accordance with Section 8.

"Series," refers to all Second Lien Bonds 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 Second Lien Bonds provide otherwise.

"SIFMA Index" means the Securities Industry and Financial Markets Association <sup>TM</sup> Municipal Swap. Index available on the Municipal Market Monitor (TM3) provided by Thomson Reuters, or its successor. However, if that index ceases to be available, "SIFMA 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.

"Sinking Fund" means the Water Bond Sinking Fund in the Water Enterprise Fund, which the City has created to provide for the repayment of bonded debt and the interest on bonded debt.

"Stabilized Net Revenues" means the Gross Revenues for a Fiscal Year, plus the withdrawals from the Rate Stabilization Account for that Fiscal Year, minus the Operating Expenses for that Fiscal Year and minus transfers to the Rate Stabilization Account for that Fiscal Year.

"State" means the State of Oregon.

"Subordinate Obligations Account" means the account of that name that is established in the Water Enterprise Fund by the First Lien Bond Ordinance to pay obligations that have a lien on Net Revenues that is subordinate to the lien of the First Lien Bonds.

"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 11.

"Valuation Date" means a date on which the City is obligated to value amounts credited to a subaccount in the Second Lien Bond Reserve Account. The Valuation Date for the First Subaccount is the First Subaccount Valuation Date.

"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 Agreement for Exchange of Interest Rates for which the interest portion of the payment is based on a rate that changes during the term of the Agreement for Exchange of Interest Rates.

"Water Enterprise Fund" means the collection of funds and accounts used by the City to hold the Gross Revenues and the proceeds of Second Lien Bonds. The Water Enterprise Fund currently includes the Water Operating Fund, the Construction Fund, and the Sinking Fund.

"Water System" means all utility property now or hereafter used by the City to supply water within or without the corporate limits of the City. However, the Water System does not include: (a) the hydroelectric turbines and related facilities on the Bull Run River on the date of this Master Declaration and any improvements to those turbines and facilities, and (b) any Separate Utility System.

#### Section 3. Deposit, Pledge and Use of Gross Revenues

- 3.1. All Gross Revenues shall be deposited to and maintained in the Water Enterprise Fund, and shall be used only as described in this Section 3as long as any Second Lien Bonds remain Outstanding. The City shall apply Gross Revenues in the Water Enterprise Fund on or before the following dates for the following purposes in the following order of priority:
- A. The City may at any time pay Operating Expenses that are then due;
- B. On the dates specified in the documents for the First Lien Bonds, the City shall make all transfers required by those documents to pay debt service on First Lien Bonds, to fund required debt service reserves for First Lien Bonds, and to pay any rebates or penalties for First Lien Bonds that are required to be paid under the documents for the First Lien Bonds;

- C. Not later than each date on which the City is required to transfer Second Lien Bond payments to the Paying Agent or to Owners of Second Lien Bonds, the City shall 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 the first day of each month following each Valuation Date on which the balance in a subaccount of the Second Lien Bond Reserve Account is determined to be less than its Reserve Requirement, the City shall transfer Net Revenues to that subaccount in the amounts required by the provisions creating that subaccount;
- E. If the City reserves the right to fund the Reserve Requirement for a subaccount in the Second Lien Bond Reserve Account in installments, the City shall transfer Net Revenues in the amounts and on the schedule specified in proceedings authorizing the Second Lien Bonds that are secured by that subaccount;
- 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, the City shall apply Net Revenues to pay the amounts due to the United States;
- G. On the dates specified in any proceedings authorizing Junior Lien Obligations, the City shall transfer to the Junior Lien Obligations Account the Net Revenues required by those proceedings;
- H. One Business Day prior to any principal or interest payment date on City general obligation bonds issued pursuant to Section 11-103 of the City Charter, the City shall transfer to the Charter General Obligation Bond Account an amount sufficient to pay all principal, interest and premium, if any, due on those general obligation bonds on that payment date;
- I. After all transfers and payments having a higher priority under this Section 3 have been made, the City shall apply Net Revenues to any franchise fees, utility license fees and similar charges imposed by the City on the Water System or its operations.
- J. While First Lien Bonds are Outstanding, not later than the last day of each Fiscal Year the City shall transfer Net Revenues to the Capital Renewal Account in the amounts described in Section 1.B.1.i of the First Lien Bond Ordinance.
- K. On any date, the City may transfer Net Revenues to the Rate Stabilization Account or spend Net Revenues for any other lawful purpose, but only if all deposits and payments having a higher priority under this Section 3have been made.
- 3.2. Whenever Federal Subsidies for Second Lien Bonds are received by the City, the City shall (if then permitted by the First Lien Bond Ordinance) deposit such Federal Subsidies in the Second Lien Bond Account to pay principal, interest, and premium, if any, on Second Lien Bonds. If the Second Lien Bond Account already contains amounts sufficient to pay the principal, interest, and premium, if any, that is due to be paid on the

next Payment Date, the City shall nevertheless deposit those Federal Subsidies in the Second Lien Bond Account, but shall release an equal amount of Net Revenues that were previously deposited in the Second Lien Bond Account, and apply the released Net Revenues as provided in Section 3.1.D through Section 3.1.K.

- 3.3. The City hereby pledges the Net Revenues to the payment of principal of, premium (if any) and interest on all Second Lien Bonds. Pursuant to ORS 287A.310, this pledge of the Net Revenues 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 this pledge shall be subordinate to the lien on the revenues of the Water System 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.
- 3.4. The City hereby pledges the Federal Subsidies for Second Lien Bonds to the payment of principal of, premium (if any) and interest on all Second Lien Bonds. Pursuant to ORS 287A.310, this pledge of the Federal Subsidies for Second Lien Bonds shall be valid and binding from the time of the adoption of this Master Declaration. The Federal Subsidies 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. To the extent required by the First Lien Bond Ordinance, the lien of this pledge 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.
- 3.5. The City reserves the right to pledge the Net Revenues available for transfer to a subaccount in the Second Lien Bond Reserve Account to pay amounts due under any Reserve Surety for Second Lien Bonds that are secured by that subaccount.

#### **Section 4. Second Lien Bond Funds and Accounts**

- 4.1. **Required Accounts**. So long as Second Lien Bonds are Outstanding, the City shall maintain the Second Lien Bond Account, the Second Lien Bond Reserve Account, the Junior Lien Obligations Account, and the Rate Stabilization Account as discrete accounts in the Subordinate Obligations Account of the Water Enterprise Fund. Unless the City restructures the funds and accounts in the Water Enterprise Fund, the Second Lien Bond Account, the Second Lien Bond Reserve Account and the Junior Lien Obligations Account shall be maintained in the Sinking Fund and the Rate Stabilization Account shall be maintained in the Water Operating Fund.
- 4.2. **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 or defease Second Lien Bonds.

- A. After the transfer described in Section 3.1.C, if the balance in the Second Lien Bond Account is less than the amount of Second Lien Bond principal, premium and interest that is due on that Payment Date, the City shall credit to the Second Lien Bond Account an amount equal to the deficiency from Net Revenues in the Junior Lien Obligations Account.
- B. If, after the credit described in Section 4.2(A), the amounts available to pay Second Lien Bond Account is not sufficient to pay all amounts due on the Second Lien Bond Payment Date, the City shall allocate the available amounts:
  - (i) First, to pay Second Lien Bond interest, and *pro rata* based on the amount of interest due on each Second Lien Bond if the available amount is not sufficient to pay all Second Lien Bond interest that is due on that Payment Date; and,
  - (ii) Second, to pay Second Lien Bond principal and premium that is due on that Payment Date, and *pro rata* based on the amount of principal and premium due on each Second Lien Bond if the available amount is not sufficient to pay all Second Lien Bond principal and premium that is due on that Payment Date.
- C. If, after the allocation described in Section 4.2.B, there is not enough to pay all principal, interest and premium that is due on that Payment Date on Second Lien Bonds that are secured by subaccounts in the Second Lien Bond Reserve Account, the City shall apply any amounts available in those subaccounts, but only to pay the principal, interest and premium on the Second Lien Bonds that are secured by those subaccounts.
- D. The City shall transfer sufficient amounts from the Second Lien Bond Account to the Registrar in time to permit the Registrar to pay Second Lien Bond principal, interest and premium (if any) when due.
- E. Amounts in the Second Lien Bond Account shall be invested only in Permitted Investments.

#### 4.3. Second Lien Bond Reserve Account.

- A. The Second Lien Bond Reserve Account shall be held by the City. The City may create one or more subaccounts in the Second Lien Bond Reserve Account to secure Series of Second Lien Bonds, and may covenant to make deposits into any subaccounts it creates; however, the City is not obligated to create any subaccounts in the Second Lien Bond Reserve Account, and is not obligated to secure any Series of Second Lien Bonds with a subaccount in the Second Lien Bond Reserve Account.
- B. If the City creates a subaccount in the Second Lien Bond Reserve Account, the City shall, when it issues the first Series of Second Lien Bonds that is secured by that subaccount: (a) determine whether the subaccount will secure one or more Series of Second Lien Bonds; (b) establish the Reserve Requirement for that subaccount; (c) pledge amounts credited to that subaccount to pay the Bonds that are secured by that subaccount; (d) determine if the Reserve Requirement for that subaccount may be funded

- with Reserve Sureties and the requirements for those Reserve Sureties; (e) determine the valuation and replenishment provisions that apply to that subaccount.
- C. The City shall not create any subaccounts in the Second Lien Bond Reserve Account for any purpose except securing Second Lien Bonds in accordance with this Master Declaration.
- 4.4. **Junior Lien Obligations Account.** If the City issues Junior Lien Obligations, the City shall create and maintain the Junior Lien Obligations Account as long as the Junior Lien Obligations are outstanding. The Junior Lien Obligations Account may be divided into subaccounts, and the City may establish priorities for funding the subaccounts in the Junior Lien Obligations Subaccount. Net Revenues shall be deposited into the Junior Lien Obligations Account only as permitted by Section 3.1.G. Earnings on the Junior Lien Obligations Account shall be credited as provided in the proceedings authorizing the Junior Lien Obligations.
- 4.5. **Rate Stabilization Account.** The City shall establish and maintain the Rate Stabilization Account as long as Second Lien Bonds are Outstanding. Net Revenues may be transferred to the Rate Stabilization Account at the option of the City as permitted by Section 3.1.K. Money in the Rate Stabilization Account may be withdrawn at any time and used for any purpose for which the Gross Revenues may be used. Deposits to the Rate Stabilization Account for a Fiscal Year shall decrease Stabilized Net Revenues for that Fiscal Year and withdrawals from the Rate Stabilization Account shall increase Stabilized Net Revenues for that Fiscal Year. The City may adjust deposits to and withdrawals from the Rate Stabilization Account 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 Account shall be credited to the Water Operating Fund.

# Section 5. Rate Covenant; Operating Leases; Treatment of Capital Charges.

# 5.1. Rate Covenants.

- A. 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 Water 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 Junior Lien Obligations Account, and to pay any franchise fees or similar charges imposed by the City on the Water System or its operations.
- B. 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 Water System which, when combined with other Gross Revenues, are adequate to generate Stabilized 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.

- C. 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 Water System which, when combined with other Gross Revenues, are adequate to generate Net Revenues each Fiscal Year at least equal to one hundred percent (100%) of Combined Annual Debt Service due in that Fiscal Year.
- D. The City shall determine whether it complied with Sections 5.1.B and 5.1.C for each Fiscal Year not later than ninety (90) days after the beginning of the subsequent Fiscal Year, based on the financial information available to the City at that time. Compliance with Sections 5.1.B and 5.1.C shall be determined based on that financial information. A failure to comply with Sections 5.1.B and 5.1.C shall not constitute an Event of Default if:
  - (i) within 120 days after the beginning of the subsequent Fiscal Year, the City engages the services of a Qualified Consultant;
  - (ii) within 150 days after the beginning of the subsequent Fiscal Year the Qualified Consultant recommends changes to the rates and charges for the Water System, or other actions in connection with the Water System, that the Qualified Consultant reasonably projects will allow the City to comply with Sections 5.1.B and 5.1.C for the remainder of the Fiscal Year in which the recommendations are delivered to the City (with calculations of Operating Expenses for the partial year calculated on an annualized basis); and,
  - (iii) within 180 days after the beginning of the subsequent Fiscal Year, the City implements the recommendations of the Qualified Consultant.
- 5.2. Treatment of Variable Rate Obligations. For purposes of calculating Combined Annual Debt Service for the rate covenants in Sections 5.1.B and 5.1.C, the Estimated Average Interest Rate for Variable Rate Obligations shall be the average SIFMA Index 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, expressed as an annualized interest rate, plus fifty basis points (0.50%). For example: The City will determine the Estimated Average Interest Rate as of April 1, 2013, and that Estimated Average Rate shall be used to set the rates that are collected in the Fiscal Year 2013-2014 (the Fiscal Year that begins July 1, 2013) for all Variable Rate Obligations that are Outstanding during that Fiscal Year. At the beginning of Fiscal Year 2014-2015, the City will determine whether it complied with the rate covenants in Fiscal Year 2013-2014. The City will be deemed to have complied with the rate covenants in Fiscal Year 2013-2014 if the City collected Net Revenues that meet or exceed the requirements of Sections 5.1.B and 5.1.C, using the Estimated Average Interest Rate calculated as of April 1, 2013.

#### 5.3. Treatment of Balloon Indebtedness.

A. For purposes of calculating Combined Annual Debt Service for the rate covenants in Sections 5.1.B and 5.1.C, 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 5.3.B. The Debt Manager shall prepare that schedule as of that first day of May, and that schedule shall be used to determine compliance with the rate covenants in Sections 5.1.B and 5.1.C for the following Fiscal Year.

- B. 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 twenty-five (25) 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 first anniversary of 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 5.3.B and is sold at the time the applicable schedule is prepared.
- 5.4. **Treatment of Federal Subsidy Obligations.** When calculating Combined Annual Debt Service for the rate covenants in Sections 5.1.B and 5.1.C, the City shall subtract from interest to be paid on Federal Subsidy Obligations the Federal Subsidies on the Federal Subsidy Obligations that the City reasonably expects, at the beginning of the Fiscal Year, to receive during that Fiscal Year.
- 5.5. Treatment of Certain Leases When Calculating Operating Expenses. The City may enter into operating leases and capital leases for assets relating to the Water System. Payments due under operating leases shall be treated as Operating Expenses. The City may elect to treat payments due under capital leases 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 from Operating Expenses all capital lease payments that were treated as Operating Expenses in that prior Fiscal Year.

# 5.6. Treatment of Capital Charges When Calculating Gross Revenues.

A. The City may elect to treat Capital Charges in two ways: the Capital Charges may be treated as Gross Revenues; or, the City may exclude the Capital Charges from Gross Revenues, borrow money and issue obligations which are secured by those charges, and treat the net proceeds of the borrowing as Gross Revenues. Capital Charges which are treated as Gross Revenues are defined as "Capital Charge Revenues;" Capital Charges which are committed to pay obligations, the proceeds of which are treated as a Gross Revenue, are defined as "Committed Capital Charges;" the net proceeds of those

- obligations which are treated as Gross Revenues are defined as "Capital Charge Proceeds;" and the obligations which produce Capital Charge Proceeds are defined as "Capital Charge Borrowings." Capital Charge Revenues and the net proceeds of Capital Charge Borrowings shall be deposited in the Water Enterprise Fund.
- B. An election to treat an issue of obligations as a Capital Charge Borrowing may be made in the proceedings authorizing issuance of the Capital Charge Borrowing; if it is not so made, it will be deemed made by the manner in which the proceeds of the obligations are treated when determining compliance with Sections 5.1.B and 5.1.C for the first Fiscal Year after the Capital Charge Borrowings are issued. This election may be changed only if the City demonstrates that the change would not have caused the City to fail to meet the requirements of Sections 5.1.B and 5.1.C, in any fiscal year prior to the fiscal year in which the change is made, if the change had been made on the date the obligations were issued.

#### **Section 6. Parity Second Lien Obligations**

- 6.1. **Basic Test.** The City may issue Parity Second Lien Obligations to provide funds for any purpose relating to the Water 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 the City has made all transfers described in Sections 3.1.B, 3.1.C, 3.1.D, 3.1.E and 3.1.F that are required to have been made by that time;
- C. There shall have been filed with the City either:
  - (i) a certificate of the Debt Manager:
    - (a) stating that the Net Revenues (adjusted as provided in Section 6.2) for the Base Period were not less than one hundred percent (100.00%) 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; and
    - (b) stating that the Stabilized Net Revenues (adjusted as provided in Section 6.2) 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 6.3 below and the Adjusted Stabilized Net Revenues computed as provided in 6.4 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 6.1.C(ii)(a) are at least equal to one hundred percent (100.00%) 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) concluding that the respective amounts of Adjusted Stabilized Net
  Revenues in each of the Fiscal Years described in Section 6.1.C(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;
- (d) stating the projected amount of the Adjusted Net Revenues computed as provided in Section 6.3 below and the Adjusted Stabilized Net Revenues computed as provided in 6.4 below 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;
- (e) concluding that this amount of Adjusted Net Revenues described in Section 6.1.C(ii)(d) is at least equal to one hundred percent (100.00%) 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; and,
- (f) concluding that this amount of Adjusted Stabilized Net Revenues described in Section 6.1.C(ii)(d) 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.
- 6.2. **Adjustments for Historical Test.** Net Revenues and Stabilized Net Revenues may be adjusted by the City for purposes of Section 6.1.C(i) by adding any Net Revenues the Debt Manager calculates the City would have had during the Base Period because of

increases in Water System rates, fees and charges which have been adopted by the City on or before the date the Parity Second Lien Obligations are issued.

- 6.3. **Adjusted Net Revenues.** The Qualified Consultant may determine the Adjusted Net Revenues for purposes of Section 6.1.C(ii) 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 Water System utility properties having an earnings record, the Qualified Consultant may adjust the Net Revenues to reflect the Qualified Consultant's estimate of the effect on the Net Revenues for the Base Period if the Water System utility properties that are being acquired had been part of the Water 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 Water System utility properties which will be acquired;
- B. The Qualified Consultant may adjust the Net Revenues to reflect any changes in rates and charges which the Qualified Consultant determines are reasonable;
- C. The Qualified Consultant may adjust the Net Revenues to reflect any customers added to the Water 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 Water 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 Water System, the Qualified Consultant may adjust the Net Revenues 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).
- 6.4. **Adjusted Stabilized Net Revenues.** The Qualified Consultant may determine the Adjusted Stabilized Net Revenues for purposes of Section 6.1.C(ii) by adjusting the Net Revenues for the Base Period in the following ways:
- A. The Qualified Consultant may adjust the Net Revenues for the Base Period in any of the ways described in Section 6.3.
- B. The Qualified Consultant may adjust the Net Revenues for the Base Period to eliminate the effect of any transfers to the Rate Stabilization Account that were made during the Base Period.
- C. The Qualified Consultant may adjust the Net Revenues to reflect any withdrawals from the Rate Stabilization Account that the Qualified Consultant estimates it would be reasonable for the City to make during any of the Fiscal Years described in Section 6.1.C(ii).

# 6.5. Exceptions.

- A. The City may issue Parity Second Lien Obligations to refund Outstanding First Lien Bonds without complying with Section 6.1 if Annual Second Lien Debt Service on the refunding Parity Second Lien Obligations does not exceed the Annual First Lien Debt Service on the refunded First Lien Bonds by more than \$5,000 in any Fiscal Year, calculated for the remainder of the Fiscal Year in which the refunding Parity Second Lien Obligations are issued and in all subsequent Fiscal Years in which the refunding Parity Second Lien Obligations are scheduled to be Outstanding.
- B. The City may issue Parity Second Lien Obligations to refund Outstanding Second Lien Bonds without complying with Section 6.1 if the Annual Second Lien Debt Service on the refunding Parity Second Lien Obligations does not exceed Annual Second Lien Debt Service on the refunded Second Lien Bonds by more than \$5,000 in any Fiscal Year, calculated for the remainder of the Fiscal Year in which the refunding Parity Second Lien Obligations are issued and in all subsequent Fiscal Years in which the refunding Parity Second Lien Obligations are scheduled to be Outstanding.
- C. The City may issue Parity Second Lien Obligations to refund Balloon Payments and Variable Rate Obligations without complying with Section 6.1.
- 6.6. **Treatment of Federal Subsidies.** When calculating Combined Annual Debt Service for the tests for issuing Parity Second Lien Obligations in this Section 6, the City shall subtract from the scheduled payments of interest on Federal Subsidy Obligations the amount of Federal Subsidies that the City reasonably expects, at the time the Parity Second Lien Obligations are issued, to receive.
- 6.7. **Treatment of Balloon Payments.** 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 5.3.B. The Debt Manager shall prepare that schedule as of the date the Parity Second Lien Obligations are sold, and that schedule shall be used to determine compliance with the tests for Parity Second Lien Obligations in this Section 6.
- 6.8. **Treatment of Variable Rate Obligations.** 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 this Section 6:
- A. Unless Section 6.8.B 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,
- B. 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 6.8.A, if the actual, annualized rate on that Series during that 52 week period is greater than the average, annualized rate described in Section 6.8.A, 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.

- 6.9. Agreements for Exchange of Interest Rates. An Agreement for Exchange of Interest Rates may be a Parity Agreement for Exchange of Interest Rates and a Parity Second Lien Obligation if the obligation to make City Payments under the Agreement for Exchange of Interest Rates qualifies as a Parity Second Lien Obligation under Section 6.1, after the Reciprocal Payments under the Agreement for Exchange of Interest Rates are applied to reduce Combined Annual Debt Service. Any Parity Agreement for Exchange of Interest Rates shall clearly state that it is a Parity Agreement for Exchange of Interest Rates and has qualified as a Parity Second Lien Obligation under Section 6.1 of this Master Declaration. In addition, the City may replace a Parity Agreement for Exchange of Interest Rates with another Parity Agreement for Exchange of Interest Rates without qualifying the replacement Agreement for Exchange of Interest Rates under Section 6.1 if the replacement does not increase the Combined Annual Debt Service in any Fiscal Year by more than \$5,000.
- 6.10. **Lien on Net Revenues.** All Parity Second Lien Obligations issued in accordance with this Section 6 shall have a lien on the Net Revenues which is equal to the lien of all other Outstanding Second Lien Bonds.

# **Section 7. Junior Lien Obligations**

The City may issue Junior Lien Obligations only if:

- 7.1. The Junior Lien Obligations are payable solely from amounts permitted to be deposited in the Junior Lien Obligations Account pursuant to Section 3.1.G;
- 7.2. The Junior Lien 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 8. Separate Utility System**

The City may declare property which the City owns and is part of the Water System (but has a value of less than five percent of the Water System at the time of the declaration), and property which the City has not yet acquired but would otherwise become part of the Water 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, at the time of payment, the City has made all transfers described in Sections 3.1.B, 3.1.C, 3.1.D, 3.1.E and 3.1.F that are required to have been made by that time. 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 Junior Lien Obligations to pay for costs of a Separate Utility System, and may pledge the revenues of the Separate Utility System to pay the Junior Lien Obligations.

#### **Section 9. General Covenants**

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

- 9.1. 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.
- 9.2. The City shall maintain complete books and records relating to the operation of the Water 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.
- 9.3. 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.
- 9.4. The City shall not amend the First Lien Bond Ordinance unless the City finds that the amendments will not materially and adversely affect the rights of the Owners of Second Lien Bonds. This covenant shall not be construed to limit the City's right to issue First Lien Bonds pursuant to the provisions of the First Lien Bond Ordinance or to prevent the City from incorporating the amendments described in Section 6 of the City's Bond Declaration for the City's First Lien Water System Revenue Bond, 2012 Series A that is dated as of August 2, 2012.
- 9.5. 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.
- 9.6. The City shall cause the Water 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 Water System, and shall cause the Water 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 Water System shall be properly and advantageously conducted.
- 9.7. The City shall not enter into any agreement to provide Water System products or services at a discount from published rate schedules, and that it will not provide free Water System products or services except for fire suppression, in case of emergencies.
- 9.8. The City shall at all times maintain with responsible insurers all such insurance on the Water 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 Water System shall be used to repair or rebuild the damaged or destroyed Water System, and to the extent not so applied, will be applied to the payment or redemption of the First Lien Bonds, and to the extent available after such payment, to the payment or redemption of the Second Lien Bonds pro rata;
- B. Insurance described in Section 9.8 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;
- 9.9. 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 Water System except:
- A. The City may dispose of all or substantially all of the Water System, only if the City pays all Second Lien Bonds or defeases them pursuant to Section 12.
- B. Except as provided in Section 9.9.C, the City will not dispose of any part of the Water System in excess of ten percent (10.0%) of the value of the Water 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 5.1 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 Water 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 Water System sold or disposed of bears to the book value of the Water System immediately prior to such sale or disposition.
- C. The City may dispose of any portion of the Water System that has become unserviceable, inadequate, obsolete, or unfit to be used or no longer necessary for use in the operation of the Water System.
- 9.10. If the ownership of property that is part of the Water System and that has a value of more than ten percent of the value of the Water System is transferred from the City through the

operation of law, then unless the City finds that the transfer will not impair the ability of the City to comply with the rate covenants contained in Section 5.1 of this Master Declaration, the City shall either reconstruct or replace such transferred portion using any proceeds of the transfer or apply the proceeds of the transfer to redeem or defease First Lien Bonds or Second Lien Bonds.

#### Section 10. Events of Default and Remedies

- 10.1. Continuous Operation Essential. The City Council of the City hereby finds and determines that the continuous operation of the Water 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 Water System and the application of the Net Revenues to the operation of the Water System and the payment of the Second Lien Bonds.
- 10.2. 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 5.1.D and 10.2.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 properties constituting the Water System in violation of Section 9.9.A;
- 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 Water 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 Water 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 Water 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 Water System.
- F. Exception. It shall not constitute an Event of Default under Section 10.2.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 Water 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 10 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 11.** Amendment of Master Declaration

- 11.1. 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 Junior Lien Obligations;
- D. To authorize Parity Agreement for Exchange of Interest Rates, and specify the rights and duties of the parties to a Parity Agreement for Exchange of Interest Rates;
- 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 Surety) 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
- I. 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 and then Outstanding Second Lien Bonds cease to be Outstanding.
- 11.2. This Master Declaration may be amended for any other purpose only upon consent of 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 the Owners of 100 percent (100%) of the affected Second Lien Bonds outstanding if the amendment:
- 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; or
- B. Reduces the percent of Second Lien Bond Owners required to approve Supplemental Declarations.
- 11.3. For purposes of Section 11.2, and subject to Section 11.4, 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.
- 11.4. Except as otherwise expressly provided below in this Section 11.4 or in a Supplemental Declaration, as long as a Credit Facility (other than a Reserve Surety) securing all or a portion of any Outstanding Second Lien Bonds is in effect, the issuer of the Credit Facility may act on behalf of the Owners of all Second Lien Bonds that are secured by the Credit Facility for the purposes of consenting to any action taken by the City under this Master Declaration and for all other purposes except payment of Second Lien Bond principal, interest and premium, if any.

- A. The Credit Provider for a Credit Facility shall not be deemed to be the Owner of a Second Lien Bond for purposes of executing and delivering with respect to any such Supplemental Declaration or of any amendment, change or modification of this Master Declaration that:
  - (i) 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
  - (ii) 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.
- B. The Credit Provider for a Credit Facility that secures Second Lien Bonds shall not be entitled to exercise any rights under Section 11.4 during any period when:
  - (i) The Credit Facility to which the Credit Provider is a party is not in full force and effect;
  - (ii) The Credit Provider has filed a petition or otherwise sought relief under any federal or state bankruptcy or similar law;
  - (iii) The Credit Provider has for any reason have failed or refused to honor a proper demand for payment under the Credit Facility;
  - (iv) An order or decree has been entered with the consent or acquiescence of the Credit Provider, appointing a receiver or receivers for the assets of the Credit Provider; or
  - (v) An order or decree has been entered without the consent or acquiescence of the Credit Provider, appointing a receiver or receivers for the assets of the Credit Provider, and the order or decree has not been vacated or discharged or stayed within ninety (90) days after its entry.
- C. 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 12. Defeasance

The provisions of this Section 12 apply to all Series of Second Lien Bonds unless the Supplemental Declaration for a Series specifically provides different defeasance provisions for that Series.

- 12.1. The City may defease and deem all or any portion of the Outstanding Second Lien Bonds to be paid by irrevocably depositing in irrevocable escrow with an independent trustee or escrow agent (1) cash or (2) non-callable Defeasance Obligations in amounts calculated to be sufficient, without reinvestment, to pay the defeased Second Lien Bonds.
- 12.2. If Second Lien Bonds are defeased under this Section 12, 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 13. BEO System.

- 13.1. The provisions of this Section 13 apply to all Series of Second Lien Bonds unless the Supplemental Declaration for a Series specifically provides different provisions for that Series.
- 13.2. The Bonds shall be initially issued as a BEO security issue with no Second Lien Bonds being made available to the Owners upon the execution and delivery of the letter of representations among the Paying Agent, DTC and the City. Ownership of the 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 Bonds") in substantially the form attached hereto as Exhibit A with such changes as the City Official may approve. Each Global 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 Bonds shall be lodged with the Depository until early redemption or maturity of the Second Lien Bond issue. The Paying Agent shall remit payment for the maturing principal and interest on the Second Lien Bonds to the Owner for distribution by the Nominee for the benefit of the owners (the "Beneficial 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 within a maturity.
- 13.3. 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 Paying Agent in the name of the Owner as appearing on the Second Lien Bond register and thereafter in the

- name or names of the Owners of the Second Lien Bonds transferring or exchanging Second Lien Bonds.
- 13.4. While the Second Lien Bonds are in BEO form, the City and the Paying Agent 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 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 Owner as shown in the registration books maintained by the Paying Agent, 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 Paying Agent, of any amount with respect to principal of or interest on the Second Lien Bonds.
- 13.5. 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 Paying Agent as the 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 registering transfers with respect to such Second Lien Bond, or for the purposes 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 Paying Agent, 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.
- 13.6. Upon delivery by the Depository to the City and to the 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 Paying Agent. The Depository shall tender the Second Lien Bonds it holds to the Paying Agent for re-registration.

# **Section 14. Redemption of Second Lien Bonds.**

14.1. The provisions of this Section 14 apply to all Series of Second Lien Bonds unless the Supplemental Declaration for a Series specifically provides different provisions for that Series.

- 14.2. The City reserves the right to purchase Second Lien Bonds in the open market.
- 14.3. If Second Lien Bonds are subject to mandatory redemption the Paying Agent 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 14.
- 14.4. If certain maturities of Second Lien Bonds are subject to both optional and mandatory redemption, the City may elect to apply against the mandatory redemption requirement 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 Paying Agent not less than sixty days prior to the mandatory redemption date to which the election applies.
- 14.5. So long as the BEO System remains in effect with respect to the Second Lien Bonds, and unless DTC consents to a shorter period, the Paying Agent shall provide not less than 20 days nor more than 60 days notice of 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.
- 14.6. 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 Paying Agent on behalf of the City by mailing a copy of an official redemption notice by first class mail postage prepaid at least 20 days and not more than 60 days prior to the date fixed for redemption to the Owner of the 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 Paying Agent. 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 Paying Agent.
- 14.7. The City shall deposit with the Paying Agent, 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.
- 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 or unless the notice was conditional as described in Section 15.9) 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 Paying Agent 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 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 Paying Agent 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.
- 14.9. Any notice of optional redemption given for the Second Lien Bonds pursuant to this Section 14 may state that the optional redemption is conditional upon receipt by the Paying Agent of moneys sufficient to pay the redemption price of such Second Lien Bonds or upon the satisfaction of any other condition, and/or that such notice may be rescinded upon the occurrence of any other event, and any conditional notice so given may be rescinded at any time before payment of such redemption price if any such condition so specified is not satisfied or if any such other event occurs. Notice of such rescission or of the failure of any such condition shall be given by the Paying Agent to affected owners of the Second Lien Bonds as promptly as practicable.

# Section 15. Authentication, Registration and Transfer.

- 15.1. 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 Paying Agent. The Paying Agent 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.
- 15.2. All Second Lien Bonds shall be in registered form. U.S. Bank National Association is hereby appointed to serve as Paying Agent for the Second Lien Bonds. A successor

- Paying Agent may be appointed for the Second Lien Bonds by ordinance or resolution of the City. The Paying Agent shall provide notice to Owners of any change in the Paying Agent not later than the Second Lien Bond payment date following the change in Paying Agent.
- 15.3. The ownership of all Second Lien Bonds shall be entered in the Second Lien Bond register maintained by the Paying Agent and the City and Paying Agent may treat the person listed as owner in the Second Lien Bond register as the owner of the Second Lien Bond for all purposes.
- 15.4. While Second Lien Bonds are in BEO form the Paying Agent shall transfer Second Lien Bond payments to their Owner has required by the BEO system.
- 15.5. The provisions of this Section 15.5 apply only if the Second Lien Bonds cease to be a BEO issue, or unless the Supplemental Declaration for a Series specifically provides different provisions for that Series.
- A. The Paying Agent 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 Owner, as that name and address appear on the Second Lien Bond register as of the applicable Record Date. If payment is so mailed, neither the City nor the Paying Agent shall have any further liability to any party for such payment.
- B. Second Lien Bonds may be exchanged for an equal principal amount of Second Lien Bonds of the same Series and maturity which are in different authorized denominations, and Second Lien Bonds may be transferred to other owners if the Owner submits the following to the Paying Agent:
  - (i) Written instructions for exchange or transfer satisfactory to the Paying Agent, signed by the Owner or his attorney in fact and guaranteed or witnessed in a manner satisfactory to the Paying Agent; and
  - (ii) The Second Lien Bonds to be exchanged or transferred.
- C. The Paying Agent shall not be required to exchange or transfer any Second Lien Bonds submitted to it during any period beginning with the applicable 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.
- D. The Paying Agent 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.
- E. For purposes of this Section 15.5, Second Lien Bonds shall be considered submitted to the Paying Agent on the date the Paying Agent actually receives the materials described in Section 15.5.B.

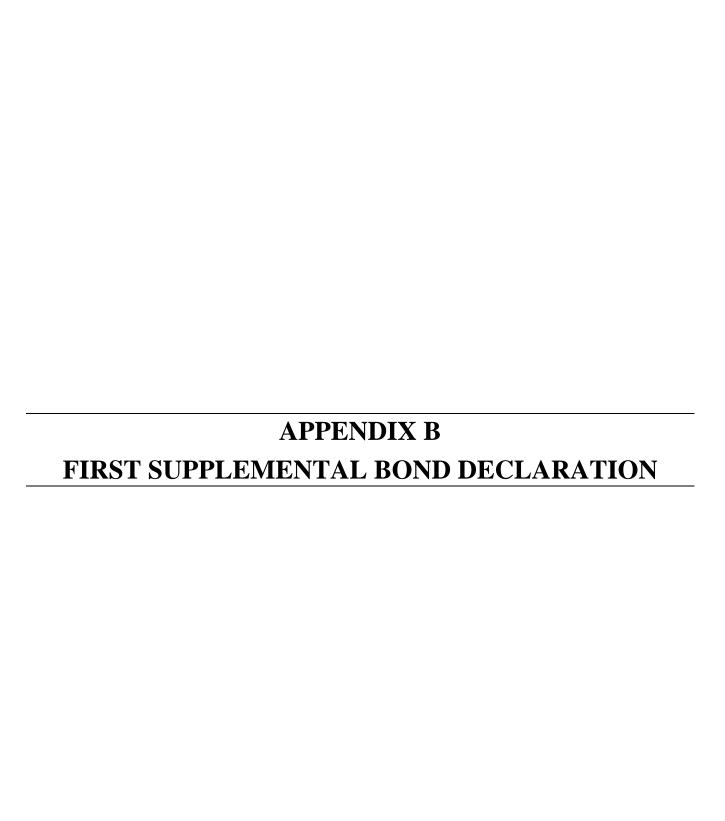
15.6. The City may alter these provisions regarding registration and transfer by mailing notification of the altered provisions to all Owners. The altered provisions shall take effect on the date stated in the notice, which shall not be earlier than 45 days after notice is mailed.

[The remainder of this page is left blank intentionally.]

EXECUTED ON BEHALF OF THE CITY O	F PORTLAND BY ITS DEBT MANAGER AS
OF THE 2 <sup>ND</sup> DAY OF MAY, 2013.	

City of Po	ortland, Oregon	
By:		
-	ebt Manager	







# FIRST SUPPLEMENTAL BOND DECLARATION

TO THE

# MASTER SECOND LIEN WATER SYSTEM REVENUE BOND DECLARATION

# City of Portland, Oregon

relating to the City's

# Second Lien Water System Revenue and Refunding Bonds 2013 Series A

Executed by the Debt Manager of the City of Portland, Oregon  $As \ of \ the \ 2^{nd} \ day \ of \ May, \ 2013$ 

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# FIRST SUPPLEMENTAL BOND DECLARATION

THIS FIRST SUPPLEMENTAL BOND DECLARATION is executed as of May 2, 2013, by the Debt Manager of the City of Portland, Oregon pursuant to the authority granted to the Debt Manager by City Ordinance No. 185916 to supplement the City's Master Second Lien Water System Revenue Bond Declaration and to establish the terms under which the City's Second Lien Water System Revenue and Refunding Bonds, 2013 Series A are issued.

### **Section 1. Recitals.**

# The City recites:

- 1.1. The City enacted Ordinance No. 185916 on March 6, 2013, authorizing the City to issue revenue bonds that are secured by the revenues of the Water System: to refund all second lien bonds that are currently outstanding under the 2006 Second Lien Declaration; to refund outstanding first lien bonds to obtain debt service savings, to provide up to \$161,500,000 of proceeds for water system projects; and, to provide additional amounts to fund reserves and pay costs related to the bonds.
- 1.2. The City is issuing its 2013 Series A Bonds under the Master Second Lien Water Revenue Bond Declaration on the date of this First Supplemental Bond Declaration for the purposes described in Section 1.1.
- 1.3. This First Supplemental Bond Declaration describes the terms related to the 2013 Series A Bonds that are being added to the Master Second Lien Water Revenue Bond Declaration.

#### Section 2. Definitions

Unless the context clearly requires otherwise, capitalized terms that are used in this First Supplemental Bond Declaration and are defined in this Section 2 shall have the meanings defined for those terms in this Section 2, and capitalized terms that are used in this First Supplemental Bond Declaration but are not defined in this Section 2 shall have the meanings defined for those terms in the Master Second Lien Water Revenue Bond Declaration.

"2013 Series A Bonds" means the City's Second Lien Water System Revenue and Refunding Bonds, 2013 Series A issued pursuant to Section 3 of this First Supplemental.

"First Subaccount Bonds" means the 2013 Series A Bonds and any other Series of Second Lien Bonds that the City elects to secure with the First Subaccount.

"First Subaccount Reserve Surety" means a Reserve Surety in which provider of the Reserve Surety unconditionally agrees to provide the City with funds to be used to pay debt service on Second Lien Bonds that are secured by the First Subaccount, in lieu of making withdrawals from the First Subaccount.

"First Subaccount Reserve Requirement" means an amount equal to the lesser of: (a) one-half of the greatest amount of Annual Second Lien Bond Debt Service on First Subaccount Bonds in any Fiscal Year, beginning with the remainder of the Fiscal Year for which the calculation is made and ending with the last Fiscal Year in which First Subaccount Bonds are scheduled to be paid and recalculated whenever First Subaccount Bonds are issued or paid; or (b) the amount described in the next sentence. If at the time the City issues a Series of First Subaccount Bonds, the Tax Maximum for that Series is less than the amount that would need to be added to make the balance in the First Subaccount equal to the amount described in clause (a) of the first sentence of this definition, calculated with that Series treated as Outstanding, then the First Subaccount Reserve Requirement in effect immediately prior to the issuance of that Series, plus the Tax Maximum for that Series. On the date of Closing of the 2013 Series A Bonds, the First Subaccount Reserve Requirement is \$11,027,175.00, which is one-half of the greatest Annual Second Lien Bond Debt Service that is due on the 2013 Series A Bonds.

"First Subaccount Reserve Surety Event" means the occurrence of any of the following: (a) the withdrawal or suspension of all Reserve Surety Ratings for a First Subaccount Reserve Surety; or (b) the downgrading of all Reserve Surety Ratings for a First Subaccount Reserve Surety below investment grade, or the equivalent rating reasonably determined by the City if rating terminology changes after the 2013 Series A Bonds are issued; or (c) the City properly tenders a request for funds under a First Subaccount Reserve Surety, and the requested funds are not delivered materially in accordance with the terms of such First Subaccount Reserve Surety. As of May 2, 2013, a rating below investment grade by Moody's is a rating below Baa3, and a rating below investment grade by S&P is a rating below BBB-.

"First Subaccount Valuation Date" means the first Business Day of each Fiscal Year, each date on which amounts are withdrawn from the First Subaccount, and each Closing date for a Series of Second Lien Bonds that is secured by the First Subaccount.

"First Subaccount" means the subaccount in the Second Lien Bond Reserve Account that secures the 2013 Series A Bonds and is described in Section 4 of this First Supplemental Bond Declaration.

"Master Declaration" means the Master Second Lien Water Revenue Bond Declaration that the City executed as of May 2, 2013, including any amendments made pursuant to its terms.

"Reserve Surety Rating" means a long-term debt, financial strength or claims-paying ability rating assigned by a Rating Agency to: (a) a provider of a First Subaccount Reserve Surety or (b) to any reinsurer of the obligations of a provider under a First Subaccount Reserve Surety.

"Tax Maximum" means, for any Series of First Subaccount Bonds, the lesser of the following, calculated as of the date a Series of First Subaccount Bonds is issued: (a) the greatest amount of principal, interest and premium, if any, remaining to be paid in any Fiscal Year on that Series; (b) 125% of average amount of principal, interest and premium, if any, required to be paid on that Series during all Fiscal Years in which such Series will be Outstanding; or, (c) ten percent of the proceeds of that Series, as "proceeds" is defined for purposes of Section 148(d) of the Code.

### Section 3. The 2013 Series A Bonds.

3.1. Pursuant to the authority of City Ordinance No. 185916 the City has issued its Second Lien Water System Revenue and Refunding Bonds, 2013 Series A, in the aggregate principal amount of \$253,635,000. The 2013 Series A Bonds shall be "Second Lien Bonds" as defined in the Master Declaration. The 2013 Series A Bonds shall bear interest payable on April 1 and October 1 of each year at the following rates, commencing October 1, 2013, and shall mature on October 1 in the following years in the following principal amounts:

<b>Maturity</b>	Principal	Interest	CUSIP No.
<b>Date (Oct.1)</b>	<b>Amount (\$)</b>	Rate (%)	(Base 736754)
2013	9,395,000	2.000	LE0
2014	3,000,000	2.000	LF7
2014	8,530,000	5.000	MA7
2015	3,000,000	3.000	LG5
2015	9,040,000	5.000	MB5
2016	9,265,000	5.000	MC3
2017	3,000,000	3.000	LH3
2017	6,715,000	5.000	MD1
2018	3,000,000	3.000	LJ9
2018	6,000,000	5.000	ME9
2019	3,000,000	3.000	LK6
2019	6,410,000	5.000	MF6
2020	3,000,000	4.000	LL4
2020	6,840,000	5.000	MG4
2021	3,000,000	4.000	LM2
2021	8,450,000	5.000	MH2
2022	12,030,000	5.000	MJ8
2023	3,000,000	4.000	LN0
2023	9,635,000	5.000	MK5
2024	8,945,000	5.000	LP5
2025	9,405,000	5.000	LQ3
2026	9,885,000	5.000	LR1
2027	10,395,000	5.000	LS9
2028	10,815,000	3.000	LT7
2029	11,200,000	4.000	LU4
2030	11,650,000	4.000	LV2
2031	10,145,000	4.000	ML3
2031	2,000,000	5.000	LW0
2032	5,925,000	4.000	MM1
2032	2,000,000	5.000	LX8
2033	5,205,000	4.000	MN9
2033	3,070,000	5.000	LY6
2037*	36,685,000	4.000	LZ3

<sup>\*</sup>Term Bond

Page 3 – Master Second Lien Water System Revenue Bond Declaration

- 3.2. The 2013 Series A Bonds shall be special obligations of the City, and shall be payable solely from the Net Revenues and amounts required by the Master Declaration and this First Supplemental Bond Declaration to be deposited in the Second Lien Bond Account and the First Subaccount of the Second Lien Bond Reserve Account, including any amounts available under a First Subaccount Reserve Surety.
- 3.3. The City hereby pledges the amounts required by the Master Declaration to be deposited in the First Subaccount of the Second Lien Bond Reserve Account, including any amounts available under a First Subaccount Reserve Surety to the payment of principal of, premium (if any) and interest on the 2013 Series A Bonds. Pursuant to ORS 287A.310, this pledge of these amounts shall be valid and binding from the time of the adoption of this Master Declaration. The amounts 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 this pledge shall be subordinate to the lien on the Net 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 may elect to secure future Series of Parity Second Lien Obligations with a pledge of and lien on the First Subaccount that is on parity with the pledge of and lien on the First Subaccount that secures the 2013 Series A Bonds. 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.
- 3.4. The 2013 Series A Bonds maturing on or after October 1, 2023, are subject to redemption prior to maturity in whole or in part at the option of the City on any date on or after April 1, 2023, in any order of maturity and by lot within a maturity. Any such redemption shall be at a price equal to 100% 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 2013 Series A Bonds, the City shall have the right to specify the particular maturities to be redeemed and the aggregate principal amount of each maturity to be redeemed.
- 3.5. The 2013 Series A Bonds maturing on October 1, 2037, are term bonds subject to mandatory redemption in the principal amounts on October 1 of the years shown below, at a redemption price equal to 100 percent of the principal amount thereof, plus interest accrued to the date fixed for redemption.

Year (Oct.1)	<b>Principal Amount (\$)</b>
2034	\$8,630,000
2035	8,980,000
2036	9,345,000
$2037^{\dagger}$	9,730,000
<sup>†</sup> Final Maturity.	

3.6. The 2013 Series A Bonds shall be in substantially the form attached as Exhibit A and shall be signed with the facsimile or manual signature of the Mayor and the City Auditor or Debt Manager.

# 3.7. Tax-Exempt Status:

- A. The City covenants for the benefit of the Owners of the 2013 Series A Bonds to comply with all provisions of the Code which are required for interest on the 2013 Series A Bonds to be excluded from gross income for federal taxation purposes. In determining what actions are required to comply, the City may rely on an opinion of Bond Counsel. The City makes the following specific covenants with respect to the Code:
  - (i) The City will not take any action or omit any action if it would cause the 2013 Series A Bonds to become "arbitrage bonds" under Section 148 of the Code;
  - (ii) The City shall operate the facilities financed with the 2013 Series A Bonds so that the 2013 Series A Bonds do not become private activity bonds within the meaning of Section 141 of the Code;
  - (iii) The City shall pay, when due, all rebates and penalties with respect to the 2013 Series A Bonds which are required by Section 148(f) of the Code.
- B. The covenants contained in Section 3.7.A and any covenants in the closing documents for the 2013 Series A Bonds shall constitute contracts with the owners of the 2013 Series A Bonds, and shall be enforceable by them.
- 3.8. The 2013 Series A Bond proceeds shall be applied as described in the Closing Transfer Memorandum prepared by the City for the 2013 Series A Bonds. Earnings from investment of the 2013 Series A Bond proceeds shall be treated and disbursed as 2013 Series A Bond proceeds.

# Section 4. The First Subaccount and the First Subaccount Reserve Requirement.

- 4.1. The First Subaccount is hereby created in the Second Lien Bond Reserve Account. The First Subaccount shall secure only the 2013 Series A Bonds and any subsequent Series of First Subaccount Bonds. Except as specifically provided in this Section 4, amounts credited to the First Subaccount shall be used only as provided in Section 4.2(C) of the Master Declaration to pay principal, interest and premium, if any, on First Subaccount Bonds, and only if amounts in the Second Lien Bond Account are not sufficient to make those payments.
- 4.2. The City hereby irrevocably pledges the amounts that are credited to the First Subaccount to pay the 2013 Series A Bonds and any subsequent First Subaccount Bonds. Pursuant to ORS 287A.310, this pledge shall be valid and binding from the Closing date of the 2013 Series A Bonds. The amounts so pledged and hereafter received by the City shall immediately be subject to the lien of this pledge without any physical delivery or further act, and the lien of this pledge shall be superior to all other claims and liens whatsoever to the fullest extent permitted by ORS 287A.310.

- 4.3. At Closing of the 2013 Series A Bonds and each subsequent Series of First Subaccount Bonds, the City shall deposit into the First Subaccount an amount sufficient to make the balance in the First Subaccount equal to the First Subaccount Reserve Requirement.
- 4.4. The City covenants to maintain a balance in the First Subaccount which is equal to the First Subaccount Reserve Requirement, but solely from Closing deposits required by Section 4.3 of this First Supplemental and from deposits of Net Revenues pursuant to Section 3.1(D) of the Master Declaration. The balance in the First Subaccount shall be equal to the sum of the following amounts, calculated as of the most recent First Subaccount Valuation Date: the cash credited to the First Subaccount; plus the value of Permitted Investments in the First Subaccount, plus the value of any First Subaccount Reserve Sureties.

# 4.5. Replenishment of First Subaccount

- A. If the balance in the First Subaccount on a First Subaccount Valuation Date is less than the First Subaccount Reserve Requirement as a result of a withdrawal from the First Subaccount pursuant to Section 4.2(C) of the Master Declaration, the City shall begin making transfers of Net Revenues to the First Subaccount in accordance with Section 3.1(D) of the Master Declaration. Monthly transfers required by this Section 4.5.A shall not be less than the amount required to restore the deficiency that was identified on that First Subaccount Valuation Date in twelve substantially equal monthly installments.
- B. If the balance in the First Subaccount on a First Subaccount Valuation Date is less than the First Subaccount Reserve Requirement as a result of a Reserve Surety Event, the City shall begin making transfers of Net Revenues to the First Subaccount in accordance with Section 3.1(D) of the Master Declaration. Monthly transfers required by this Section 4.5.B shall not be less than the amount required to restore the deficiency that was identified on that First Subaccount Valuation Date in sixty substantially equal monthly installments.
- C. Monthly transfers required by Sections 4.5.A and 4.5.B shall commence on the first day of the first month following each First Subaccount Valuation Date on which the balance in the First Subaccount is determined to be less than the First Subaccount Reserve Requirement, and shall continue until the balance in the First Subaccount is equal to the First Subaccount Reserve Requirement.
- D. Transfers to the First Subaccount shall be applied first, to reimburse the providers of any First Subaccount Reserve Sureties *pro rata* for amounts advanced under those First Subaccount Reserve Sureties; second, to replenish the balance in the First Subaccount with cash or Permitted Investments; and third to pay any other amounts owed under a First Subaccount Reserve Surety (including any interest, fees and penalties associated with any draw under that First Subaccount Reserve Surety).
- 4.6. If the balance in the First Subaccount on a First Subaccount Valuation Date is greater than the First Subaccount Reserve Requirement the City may transfer the excess to the Second Lien Bond Account or the Subordinate Obligations Account.

- 4.7. Earnings on the First Subaccount shall be credited to that subaccount whenever the balance in that subaccount is less than the First Subaccount Reserve Requirement. Otherwise, earnings shall be credited to the Second Lien Bond Account.
- 4.8. Moneys in the First Subaccount may be invested only in Permitted Investments that mature no later than the final maturity date of the Bonds that are secured by the First Subaccount.
- 4.9. Permitted Investments in the First Subaccount shall be valued on each First Subaccount Valuation Date in the following manner:
- A. Demand deposits, deposits in the City's investment pool, the Oregon Short Term Fund and other investments which mature in two years or less after the First Subaccount Valuation Date shall be valued at their face amount, plus accrued interest;
- B. Investments which mature more than two years after the First Subaccount 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;
- C. Investments which mature more than two years after the First Subaccount 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;
- D. Certificates of deposit and bankers acceptances which mature more than two years after the First Subaccount Valuation Date shall be valued at their face amount, plus accrued interest; and
- E. Any investment which is not specified above and which matures more than two years after the First Subaccount Valuation Date shall be valued at its fair market value as reasonably estimated by the City.
- 4.10. Each First Subaccount Reserve Surety credited to the First Subaccount shall be valued on each First Subaccount Valuation Date as provided in this subsection. A First Subaccount Reserve Surety shall be valued at the amount available to be drawn under it as long as no First Subaccount Reserve Surety Event has occurred and is continuing for that First Subaccount Reserve Surety. If a First Subaccount Reserve Surety Event has occurred and is continuing for a First Subaccount Reserve Surety, the First Subaccount Reserve Surety shall have no value.
- 4.11. Withdrawals from the First Subaccount shall be made in the following order of priority:
- A. *First*, from any cash on deposit in the First Subaccount;

- B. **Second**, from the liquidation proceeds of any Permitted Investments on deposit in such First Subaccount; and,
- C. *Third*, from Reserve Credit Facilities credited to the First Subaccount.
- 4.12. All amounts on deposit in the First Subaccount may be applied to the final transfers (whether at maturity or by prior redemption) that the City is required to make by Section 3.1(C) of the Master Declaration to pay the last remaining First Subaccount Bonds.
- 4.13. Amounts in the First Subaccount may be transferred into escrow to defease Bonds secured by the First Subaccount, but only if the balance remaining in the First Subaccount after the transfer is at least equal to the First Subaccount Reserve Requirement for the First Subaccount Bonds that remain Outstanding after the defeasance.
- 4.14. For purposes of determining the First Subaccount Reserve Requirement:
- A. If First Subaccount Bonds are issued as Variable Rate Obligations, the Estimated Average Interest Rate for those Variable Rate 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 Variable Rate Obligations are sold, expressed as an annualized interest rate. This calculation of Estimated Average Interest Rate that is made when the Variable Rate Obligations are sold shall be used to determine the First Subaccount Reserve Requirement for that Series of Variable Rate Obligations as long as that Series of Variable Rate Obligations is Outstanding.
- B. If a Series of First Subaccount Bonds contains a Balloon Payment, the Debt Manager shall prepare a schedule of principal and interest payments for a hypothetical Series of Second Lien Bonds that refunds the Balloon Payment in accordance with Section 5.3(B) of the Master Declaration. The Debt Manager shall prepare that schedule as of the date the Series is sold, and that schedule shall be combined with the Annual Second Lien Debt Service on the remaining First Subaccount Bonds of that Series to determine the First Subaccount Reserve Requirement as long as that Series is Outstanding.

EXECUTED ON BEHALF OF THE CITY OF PORTLAND BY ITS DEBT MANAGER AS OF THE 2<sup>nd</sup> DAY OF MAY, 2013.

City	of Portland, Oregon	
By:		
<b>1</b> 5y	Debt Manager	

#### Exhibit A

#### Form of 2013 Series A Bond

No. R-«BondNumber»

\$«PrincipalAmtNumber»

United States of America
State of Oregon
Counties of Multnomah, Washington and Clackamas
City of Portland

Second Lien Water System Revenue and Refunding Bond, 2013 Series A

**Dated Date**: May 2, 2013

Interest Rate Per Annum: «CouponRate»%
Maturity Date: October 1, «MaturityYear»
CUSIP Number: 736754«CUSIPNumbr»
Registered Owner: -----Cede & Co.-----

Principal Amount: -----«Principal AmtSpelled» Dollars-----

THE CITY OF PORTLAND, State of Oregon (the "City"), for value received, acknowledges itself indebted and hereby promises to pay to the Registered Owner hereof, or registered assigns, but solely from the sources indicated below, the Principal Amount on the Maturity Date together with interest thereon from the date hereof at the Interest Rate Per Annum indicated above. Interest is payable semiannually on the first days of April and October in each year until maturity or prior redemption, commencing October 1, 2013. Principal and interest payments shall be received by Cede & Co., as nominee of The Depository Trust Company, or its registered assigns, as of the close of business on the fifteenth day of the calendar month immediately preceding the applicable interest payment date. Such payments shall be made payable to the order of "Cede & Co." as nominee of The Depository Trust Company, New York, New York

This 2013 Series A Bond is not a general obligation or liability of the City, and is payable solely from the Net Revenues of the Water System as provided in the Master Second Lien Water System Revenue Bond Declaration dated as of May 2, 2013 (the "Master Declaration"). The City covenants and agrees with the owner of this 2013 Series A Bond that it will keep and perform all of the covenants in this 2013 Series A Bond and in the Master Declaration. The City has pledged the Net Revenues of the Water System to the payment of principal and interest on this 2013 Series A Bond. The lien of the pledge that secures this 2013 Series A Bond is subordinate to the lien on the Water System revenues that secures obligations that the City has issued, and may issue in the future.

Unless the book-entry-only system is discontinued, notice of any call for redemption shall be given as required by the Letter of Representations to The Depository Trust Company, as referenced in the Master Declaration. Interest on any 2013 Series A Bond or 2013 Series A Bonds so called for redemption shall cease on the redemption date designated in the notice. The City's paying agent and registrar, which is currently U.S. Bank National Association, in Portland, Oregon (the "Registrar"), will notify The Depository Trust Company of any 2013 Series A Bonds called for redemption not less than 30 days prior to the date fixed for redemption. If the bookentry-only system is discontinued, notice of redemption shall be given 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 registered owner of each Bond to be redeemed at the address shown on the Bond register.

The 2013 Series A Bonds are initially issued as a book-entry-only security issue with no certificates provided to the 2013 Series A Bondowners. Records of 2013 Series A Bondownership will be maintained by the Registrar and The Depository Trust Company and its participants.

Should the book-entry-only security system be discontinued, the 2013 Series A Bonds shall be issued in the form of registered 2013 Series A Bonds without coupons in the denominations of \$5,000 or any integral multiple thereof. Such 2013 Series A Bonds may be exchanged for 2013 Series A Bonds of the same aggregate principal amount, but different authorized denominations, as provided in the Master Declaration.

Any transfer of this 2013 Series A Bond must be registered, as provided in the Master Declaration, upon the 2013 Series A Bond register kept for that purpose by the Registrar. Upon registration, a new registered 2013 Series A Bond or 2013 Series A Bonds, of the same series and maturity and in the same aggregate principal amount, shall be issued to the transferee as provided in the Master Declaration. The Registrar and the City may treat the person in whose name this 2013 Series A Bond is registered as its absolute owner for all purposes, as provided in the Master Declaration.

The 2013 Series A Bondowner may exchange or transfer this 2013 Series A Bond only by surrendering it, together with a written instrument of exchange or transfer which is satisfactory to the Registrar and duly executed by the registered owner or their duly authorized attorney, at the principal corporate trust office of the Registrar in the manner and subject to the conditions set forth in the Master Declaration.

Unless this certificate is presented by an authorized representative of The Depository Trust Company to the issuer or its agent for registration of transfer, exchange or payment, and any certificate issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of The Depository Trust Company and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered owner hereof, Cede & Co., has an interest herein.

This 2013 Series A Bond is one of a series of \$253,635,000 aggregate principal amount of Second Lien Water Revenue and Refunding Bonds, 2013 Series A, of the City, and is issued by the City for the purpose of financing improvements to the City's Water System and refunding outstanding bonds issued to finance improvements to the Water System in full and strict accordance and compliance with all of the provisions of the Constitution and Statutes of the State of Oregon and the charter of the City.

The Bonds shall mature and be subject to redemption as described in the final Official Statement for the Bonds which is dated April 23, 2013.

The 2013 Series A Bonds are issuable in the form of registered 2013 Series A Bonds without coupons in the denominations of \$5,000 or any integral multiple thereof. 2013 Series A Bonds may be exchanged for an equal aggregate principal amount of registered 2013 Series A Bonds of the same maturity and of any other authorized denominations in the manner, and subject to the conditions set forth in the Master Declaration.

This Bond shall remain in the Registrar's custody subject to the provisions of the FAST Balance Certificate Agreement currently in effect between the Registrar and The Depository Trust Company.

IT IS HEREBY CERTIFIED, RECITED, AND DECLARED that all conditions, acts, and things required to exist, to happen, and to be performed precedent to and in the issuance of this 2013 Series A Bond have existed, have happened, and have been performed in due time, form, and manner as required by the Constitution and Statutes of the State of Oregon; that the issue of which this 2013 Series A Bond is a part, and all other obligations of such City, are within every debt limitation and other limits prescribed by such Constitution and Statutes.

IN WITNESS WHEREOF, the City Council of the City of Portland, Oregon, has caused this 2013 Series A Bond to be signed by facsimile signature of its Mayor and attested by facsimile signature of its Auditor as of the date indicated above.



	City of	'Port	land,	Oregon
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Mayor

Auditor

# THIS 2013 SERIES A BOND SHALL NOT BE VALID UNLESS PROPERLY AUTHENTICATED BY THE REGISTRAR IN THE SPACE INDICATED BELOW.

This 2013 Series A Bond is one of a series of \$253,635,000 aggregate principal amount of Second Lien Water System Revenue and Refunding Bonds, 2013 Series A, of the City, issued pursuant to the Master Declaration described herein.

Date of authentic	ration: May 2, 2013.
U.S. Bank Natio	onal Association, as Registrar
Authorized Offic	er
	ASSIGNMENT
	FOR VALUE RECEIVED, the undersigned sells, assigns and transfers unto:
	(Please insert social security or other identifying number of assignee)
	A Bond and does hereby irrevocably constitute and appoint as attorney to transfer this 2013 Series A Bond on the books kept for
	as attorney to transfer this 2013 Series A Bond on the books kept for of with the full power of substitution in the premises.
Dated:	
	ignature to this assignment must correspond with the name of the registered owner as it appears this 2013 Series A Bond in every particular, without alteration or enlargement or any change
NOTICE: Signat trust company	ure(s) must be guaranteed by a member of the New York Stock Exchange or a commercial bank or
Signature Guarar	nteed
(Bank, Trust Cor	mpany or Brokerage Firm)
Authorized Office	er
shall be construe	The following abbreviations, when used in the inscription on the face of this 2013 Series A Bond, d as though they were written out in full according to applicable laws or regulations.  TEN COM tenants in common  TEN ENT as tenants by the entireties  JT TEN as joint tenants with right of survivorship and not as tenants in common  OREGON CUSTODIANS use the following:







### INTRODUCTION TO FINANCIAL STATEMENTS

The financial statements of the City have been audited by independent certified public accountants for the fiscal years 2008, 2009, 2010, 2011 and 2012. 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, 2008 through June 30, 2012.

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 2013 SERIES A BONDS AND IS THEREFORE NOT ASSOCIATED WITH THE OFFERING OF THE 2013 SERIES A BONDS.



# CITY OF PORTLAND, OREGON

# Water Fund

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

		<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Operating revenues:			*	* ==		
Service charges and fees Rents and reimbursements	\$	96,645,344	\$ 101,383,963	\$ 111,729,058 573,540	\$ 116,880,716	\$ 130,441,210
Miscellaneous		-	344,630	373,340	550,292	469,928
Total operating revenues	_	96,645,344	101,728,593	112,702,102	117,431,008	130,911,138
Total operating revenues		70,012,311	101,720,575	112,702,102	117,131,000	130,511,130
Operating expenses:						
Salaries and wages		34,693,069	35,779,508	34,821,290	36,384,329	38,308,147
Operating supplies		3,280,815	3,738,907	2,827,294	3,158,064	3,228,096
Professional services		12,606,404	19,163,084	14,253,033	10,180,743	18,406,542
Utilities		3,507,077	2,003,828	2,262,663	2,350,643	2,038,069
Miscellaneous		7,269,187	1,215,312	10,864,140	11,146,714	4,304,743
Utility license fees		4,392,061	4,275,133	4,339,850	4,525,967	4,279,884
Depreciation expense		18,695,953	20,672,524	20,129,384	21,050,971	22,290,243
Total operating expenses		84,444,566	86,848,296	89,497,654	88,797,431	92,855,724
Operating income (loss)		12,200,778	14,880,297	23,204,448	28,633,577	38,055,414
Nonoperating revenues (expenses):						
Gain (loss) on sale of capital assets		(205,343)	(269,881)	(331,230)	(373,494)	(697,064)
Investment earnings		3,011,424	3,039,569	189,392	1,320,366	541,346
Interest expense		(9,582,977)	(11,143,410)	(10,979,221)	(14,667,846)	(15,255,913)
Debt issuance costs		-	(232,315)		(470,741)	_
Miscellaneous		2,701,849	(410,659)		569,635	585,623
Total nonoperating revenues (expenses)		(4,075,047)	(9,016,696)	(11,389,891)	(13,622,080)	(14,826,008)
Income (loss) before contributions and transfers		8,125,731	5,863,601	11,814,557	15,011,497	23,229,406
Transfers in		-	450,000	50,630	101,478	140,008
Transfers out		(733,488)	(582,291)	(523,241)	(466,889)	(487,823)
Capital contributions		4,291,238	599,567	-	2,990,277	784,017
Income before special item		11,683,481	6,330,877	11,341,946	17,636,363	23,665,608
Special item:						
Capital asset write-off		-	-	-	-	(16,855,522)
Change in net assets		11,683,481	6,330,877	11,341,946	17,636,363	6,810,086
Total net assets beginning		376,590,479	388,273,960	394,604,837	405,946,783	423,583,146
Total net assets ending	\$	388,273,960	\$ 394,604,837	\$ 405,946,783	\$ 423,583,146	\$ 430,393,232

Source: City of Portland. Audited financial statements.

# CITY OF PORTLAND, OREGON

# Water Fund Statement of Net Assets As of June 30

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
ASSETS					
Current assets (unrestricted):					
Cash and investments	\$ 35,786,921	\$ 42,142,347	\$ 39,584,067	\$ 48,790,800	\$ 64,626,887
Receivables					
Accounts, net	11,798,352	12,996,974	14,201,799	16,228,558	18,632,057
Assessments	-	109,311	102,448	124,581	210,364
Advances	-	-	-	-	2,804,400
Accrued interest	286,098	682,004	335,572	432,984	316,392
Due from other funds	5,373,159	1,591,867	1,286,623	380,883	380,883
Inventories	1,971,973	2,234,189	2,164,577	2,143,957	1,560,613
Prepaid expenses	_	421,535	415,664	-	-
Total current assets (unrestricted)	55,216,503	60,178,227	58,090,750	68,101,763	88,531,596
Current assets (restricted):					
Cash and investments	5,500,000	6,912,957	4,188,568	5,241,008	-
Total current assets (restricted)	5,500,000	6,912,957	4,188,568	5,241,008	-
Total current assets	60,716,503	67,091,184	62,279,318	73,342,771	88,531,596
Noncurrent assets (unrestricted):					
Capital assets, not being depreciated or amortized:					
Land	17,007,946	17,007,946	15,075,102	15,075,220	15,120,632
Construction in progress	34,587,011	85,678,528	90,420,139	89,146,868	120,727,125
Intangible assets:					
Land use rights	-	72,306	2,302,607	2,315,561	2,315,561
Capital assets, being depreciated or amortized:					
Infrastructure	725,119,444	740,960,777	794,980,942	854,794,631	874,286,315
Buildings	25,906,595	27,063,028	34,008,654	35,484,591	37,283,939
Improvements to land	3,583,777	3,771,553	3,949,729	10,631,768	14,392,055
Machinery and equipment	30,207,566	29,984,461	27,847,600	28,102,876	28,870,122
Intangible assets:					
Owning rights	-	-	-	10,776	10,776
Software	-	-	2,714,181	2,818,986	1,410,027
Capitalized leases	-	-	-	-	-
Accumulated depreciation and amortization	(271,775,715)	(288,989,287)	(307,871,178)	(325,289,035)	(337,264,984)
Capital assets net of accumulated					
depreciation and amortization	564,636,624	615,549,312	663,427,776	713,092,242	757,151,568
Receivables:					
Assessments	-	-	_	-	51,626
Pre-paid pension obligation	25,005,726	23,838,143	22,670,560	21,502,977	20,335,394
Water rights	72,306	-	-	-	-
Total non-current assets (unrestricted)	589,714,656	639,387,455	686,098,336	734,595,219	777,538,588
Noncurrent assets (restricted):					
Cash and investments:	-	20,518,173	45,593,821	76,748,157	15,884,413
Total non-current assets	589,714,656	659,905,628	731,692,157	811,343,376	793,423,001
Total assets	650,431,159	726,996,812	793,971,475	884,686,147	881,954,597

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

	<u>2008</u>	<b>2009</b>	<u>2010</u>	<u>2011</u>	<u>2012</u>
LIABILITIES					· <del></del>
Current liabilites (payable from					
unrestricted assets):					
Accounts payable	9,464,909	3,572,072	5,671,532	3,925,850	14,518,808
Due to other funds	220,500	-	-	-	-
Compensated absences	2,443,415	2,830,726	2,846,782	3,203,526	3,544,030
Unearned revenue	176,261	232,363	238,938	199,511	244,142
Bonds payable	10,252,410	12,591,336	15,066,994	15,788,553	16,897,751
Notes anf loans payable	-	-	-	-	282,195
Accrued interest payable - current	2,427,321	2,927,529	3,836,408	4,041,439	3,505,602
Other liabilities - current	4,103,457	676,218	336,881	239,166	39,753
Total current liabilities (unrestricted)	29,088,273	22,830,244	27,997,535	27,398,045	39,032,281
Current liabilities (payable from					
restricted assets):					
Accounts payable	_	6,912,957	4,188,568	5,241,008	_
• •			· · · · · · · · · · · · · · · · · · ·	· · · · · · · · · · · · · · · · · · ·	
Total current liabilities (restricted)		6,912,957	4,188,568	5,241,008	
Total current liabilities	29,088,273	29,743,201	32,186,103	32,639,053	39,032,281
Noncurrent liabilities:					
Compensated absences	1,005,523	1,974,573	966,468	720,992	622,685
Bonds payable	228,235,901	295,683,735	348,863,029	419,608,747	402,710,996
Accrued interest payable	3,375,450	4,107,369	4,898,411	6,731,234	7,649,316
Other postemployment benefits	452,052	883,097	1,110,681	1,402,975	1,546,087
Total noncurrent liabilities	233,068,926	302,648,774	355,838,589	428,463,948	412,529,084
Total liabilities	262,157,199	332,391,975	388,024,692	461,103,001	451,561,365
NET ASSETS					
Invested in capital assets, net of related debt	360,322,950	340,751,468	332,118,644	386,042,325	383,545,046
Restricted for debt service	5,500,000	5,398,600	10,224,969	-	-
Unrestricted	22,451,010	48,454,769	63,603,170	37,540,821	46,848,186
				, , ,	
Total net assets	\$ 388,273,960	\$ 394,604,837	\$ 405,946,783	\$ 423,583,146	\$430,393,232

 $\underline{Source} \hbox{: } City \ of \ Portland. \ Audited \ financial \ statements.$ 

# CITY OF PORTLAND, OREGON

# Water Fund Statement of Cash Flows For Fiscal Years Ended June 30

	2008	2009	<u>2010</u>	<u>2011</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITY					<del></del>
Receipts from customers and users	\$ 90,296,261	\$ 98,505,064	\$ 107,703,270	\$ 112,611,576	\$ 122,371,813
Receipts from interfund services provided	6,504,500	5,331,456	4,025,014	4,004,508	3,101,363
Payments to suppliers	(10,161,493)	(14,629,903)	(13,645,889)	(11,052,326)	(2,152,285)
Payments to employees	(34,157,166)	(33,992,102)	(34,418,172)	(34,813,184)	(36,755,255)
Payments for interfund services used	(13,396,950)	(18,656,197)	(21,789,170)	(21,119,569)	(24,324,537)
Other receipts (payments)	 -	-	86,971	87,436	678,277
Net cash provided by operating activities	 39,085,152	36,558,318	41,962,024	49,718,441	62,919,376
CASH FLOW FROM NONCAPITAL					
FINANCING ACTIVITIES					
Other noncapital increases	5,051,640	756,922	_	-	-
Other noncapital decreases	(1,182,208)	-	_	-	-
Miscellaneous revenues (expenses)	-	-	_	569,635	-
Transfers in	-	450,000	50,630	49,374	140,008
Transfers out	(733,488)	(582,291)	(523,241)	(408,987)	(486,037)
Net cash provided (used) by noncapital	 (,,	( , - ,	( , , ,	(	(
financing activities	 3,135,944	624,631	(472,611)	210,022	(346,029)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sale of bonds and notes	-	79,680,000	73,440,000	86,534,272	282,195
Premium on bonds and notes issued	-	952,459	1,951,293	_	-
Sale of capital assets	202,276	295,731	170,864	207,661	362,967
Acquisiton of capital assets	(60,555,197)	(71,478,950)	(68,509,942)	(68,312,114)	(83,482,890)
Principal paid on bonds, notes and capital leases	(9,678,620)	(10,252,410)	(19,171,336)	(14,381,665)	(14,919,219)
Interest paid on bonds, notes and capital leases	(9,620,192)	(10,504,571)	(9,844,305)	(13,315,321)	(15,743,004)
Bond issuance costs	-	(232,315)	(268,832)	(470,741)	-
Net cash provided (used) by capital related					
financing activities	(79,651,733)	(11,540,056)	(22,232,258)	(9,737,908)	(113,499,951)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest on investments	3,604,677	2,643,663	535,824	1,222,954	657,939
Net increase (decrease) in cash	 3,004,077	2,043,003	333,024	1,222,734	031,737
and cash equivalents	(33,825,960)	28,286,556	19,792,979	41,413,509	(50,268,665)
CASH AND CASH EQUIVALENTS					
July 1, Prior Year	75,112,881	41,286,921	69,573,477	89,366,456	130,779,965
CASH AND CASH EQUIVALENTS June 30, Current Year	\$ 41,286,921	\$ 69,573,477	\$ 89,366,456	\$ 130,779,965	\$ 80,511,300
Reconciliation of Cash and Cash Equivalents					
to the Statements of Net Assets:					
Unrestricted cash and cash equivalents		\$ 42,142,347	\$ , ,	\$ 48,790,800	\$ 64,626,887
Restricted cash and cash equivalents		 27,431,130	 49,782,389	81,989,165	 15,884,413
Total	-	\$ 69,573,477	\$ 89,366,456	\$ 130,779,965	\$ 80,511,300

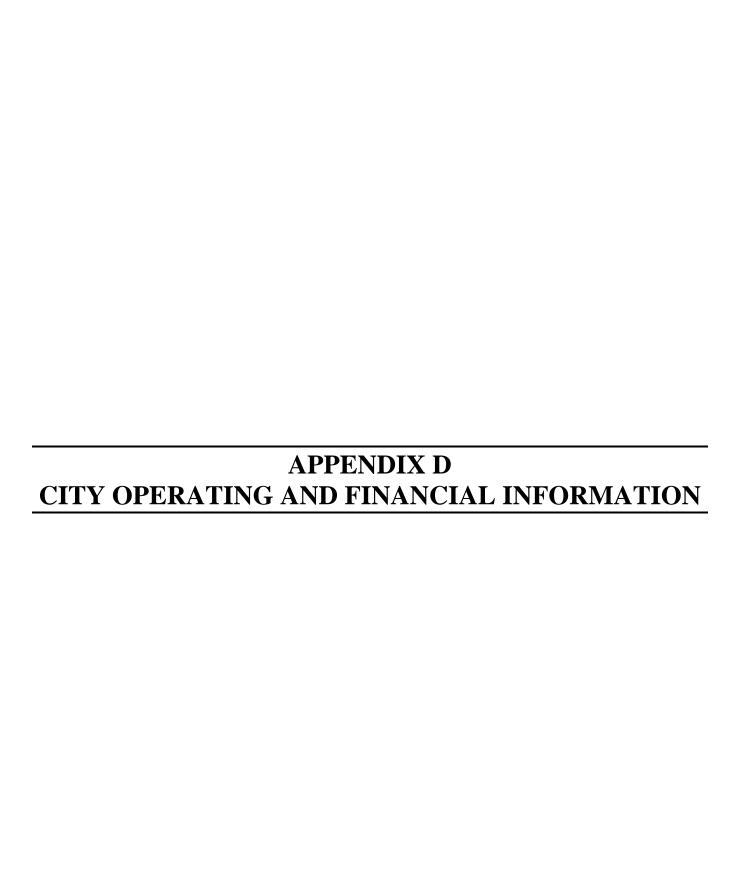
# CITY OF PORTLAND, OREGON

# Water Fund Statement of Cash Flows (continued) For Fiscal Years Ended June 30

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Reconciliation of operating income (loss) to					
net cash provided by operating activities					
Operating income (loss)	\$ 12,200,778 \$	14,880,297 \$	23,204,448 \$	28,633,577 \$	38,055,414
Adjustments to reconcile operating income (loss)					
to net cash provided (used) by operating activities:					
Depreciation and amortization of capital assets	18,695,953	20,672,524	20,129,384	21,050,971	22,290,243
Provision for uncollectible accounts	700,607	1,039,138	1,029,366	887,159	845,671
Nonoperating revenue	-	-	-	-	585,623
Accounts and contracts receivable	(731,251)	(2,347,070)	(1,053,874)	(1,352,804)	(5,023,396)
Inventories	(182,545)	(262,216)	69,612	20,620	583,344
Checks and accounts payable	6,089,493	1,020,119	(624,929)	(693,242)	5,351,950
Compensated absences	83,851	1,356,361	(992,049)	111,268	242,197
Due from (to) other funds	1,128,719	3,560,792	305,244	905,740	-
Other assets		(421,535)	-	-	-
Unearned revenue	(21,551)	56,102	6,575	(39,427)	44,631
Other liabilities	669,046	(3,427,239)	(339,337)	(97,715)	(199,413)
Accrued other postemployment benefits	 452,052	431,045	227,584	292,294	143,112
Net cash provided by operating activities	\$ 39,085,152 \$	36,558,318 \$	41,962,024 \$	49,718,441 \$	62,919,376
Noncash information					
Non-operating prepaid PERS amortization	1,167,583	1,167,583	1,167,583	(1,167,583)	(1,167,583)
Capital contribution	4,291,238	599,567	-	2,990,277	784,017
Special item	-	-	-	-	(16,855,522)
Increase in fair value of investments (classified as cash equivalents)	169,679	419,100	(760,626)	670,088	(177,859)

Source: City of Portland. Audited financial statements







## CITY OPERATING AND FINANCIAL INFORMATION

#### FISCAL YEAR

July 1 to June 30.

#### 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").

#### FINANCIAL REPORTING AND BUDGETING

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

A five-year General Fund financial forecast, which serves as the basis for determining resources available for budgeting, is also provided to the City Council along with budget requests. Major City bureaus generally prepare and submit five-year financial plans and Capital Improvement Plans.

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

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

In December 2012, the City Council voted to amend the City Code to create a separate City office focused exclusively on budget analysis and economic forecasting. The new City Budget Office was created by removing the existing budget and economic analysis functions from the City's Office of Management and Finance. This reorganization is intended to ensure that all City Commissioners are given direct, unfiltered communication with budget office staff throughout the year and to remove potential conflicts of interest during the budget decision-making process. The ordinance creating the City Budget Office became effective on December 12, 2012.

#### **AUDITS**

The Oregon Municipal Audit Law (ORS 297.405 - 297.555) requires an audit and examination be made of the accounts and financial affairs of every municipal corporation at least once each year. The audit shall be made by accountants whose names are included on the roster prepared by the State Board of Accountancy. Moss Adams LLP has performed auditing services for FY 2002-03 through FY 2011-12.

A complete copy of the City's FY 2011-12 audit is available on the City's web site at http://www.portlandoregon.gov/bfs/60673. The City's web site is listed for reference only, and is not part of this Official Statement. Excerpts of the City's audited financial statements for the City's Water Fund on a Generally Accepted Accounting Principles (GAAP) basis are found in Appendix C. See Appendix C, "EXCERPTS OF AUDITED FINANCIAL STATEMENTS," herein.

#### **INSURANCE**

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

The City estimates liability for incurred losses for reported and unreported claims for workers' compensation, general and fleet liability and employee medical coverage (included in accrued self insurance claims in the combined statement of net assets). Workers' compensation, general and fleet liability estimates are primarily based on individual case estimates for reported claims and through historical data for unreported claims as determined by the City's Risk Management Services and independent actuarial studies. Liabilities are based on estimated ultimate cost of settling claims, including effects of inflation and other societal and economic factors. Estimated liability is then discounted by the City's expected rate of return and anticipated timing of cash outlays to determine present value of the liability. For fiscal year ended June 30, 2013, the expected rate of return used was 0.35 percent. For fiscal year ending June 30, 2014 and subsequent years, the expected rate of return used was 0.50 percent. The 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 liability coverage insurance policy covers individual claims in excess of \$1,000,000 to policy limits and an excess workers' compensation coverage insurance policy covers claims in excess of \$850,000 for occurrences after July 1, 2012. The City purchases commercial insurance for claims in excess of coverage provided by the self-insurance fund. The City's limits of coverage on the excess liability policy is \$10 million per claim above the \$1 million self-insurance retention for covered torts occurring after November 12, 2012.

#### **Personal Injury and Death Claim**

Under ORS 30.272, the liability of a local public body and its officers, employees and agents acting within the scope of their employment or duties, to any single claimant for covered personal injury or death claims (and not property claims) arising out of a single accident or occurrence may not exceed \$600,000 for causes of action arising on or after July 1, 2012, and before July 1, 2013. This cap increases incrementally through June 30, 2015, to \$666,700. The liability limits to all claimants for covered personal injury or death claims (and not property claims) arising from a single accident or occurrence increases to \$1,200,000 for causes of action arising on or after July 1, 2012, and before July 1, 2013, and incrementally to \$1,333,300 through June 30, 2015.

For causes of action arising on or after July 1, 2015, the liability limits for both a single claimant and all claimants will be adjusted based on a determination by a State Court Administrator of the percentage increase or decrease in the cost of living for the previous calendar year as provided in the formula in ORS 30.272. The adjustment may not exceed three percent for any year.

### **Property Damage or Destruction Claim**

Under ORS 30.273, the liability of a public body and its officers, employees and agents acting within the scope of their employment or duties, for covered claims for damage and destruction of property that arise from causes of action arising on or after July 1, 2012, and before July 1, 2013, are as follows: (a) \$104,300 for any single claimant and (b) \$521,400 to all claimants. These liability limits are adjusted based on a determination by a State Court Administrator of the percentage increase or decrease in the cost of living for the previous calendar year as provided in the formula in ORS 30.273. The adjustment may not exceed three percent for any year.

#### PENSION PLANS

#### General

Substantially all City employees (other than most fire and police personnel), after six months of employment, are participants in three retirement pension benefit programs under the State of Oregon Public Employees Retirement System ("PERS" or the "System") – Tier 1, Tier 2, or the Oregon Public Service Retirement Plan ("OPSRP").

The Tier 1 and Tier 2 pension programs (the "T1/T2 Pension Programs") are defined benefit pension plans that provide 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 T1/T2 Pension Program 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.

Public employees hired on or after August 29, 2003, become part of OPSRP, unless membership was previously established in the T1/T2 Pension Programs. OPSRP is a hybrid (defined contribution/defined benefit) pension plan with two components. Employer contributions fund the defined benefit program and employee contributions fund the Individual Account Program ("IAP") under the separate defined contribution program. Beginning January 1, 2004, active members of the T1/T2 Pension Program became members of the IAP under OPSRP and their employee contributions were directed to the member's IAP account and will be part of a separate defined contribution program.

Oregon statutes require an actuarial valuation of the System by a competent actuary at least once every two years. Under current practice, actuarial valuations are performed annually, but only valuations as of the end of each odd-numbered year are used to determine contribution rates that employers will be required to pay to fund the obligations of T1/T2 Pension Programs, OPSRP and the PERS-sponsored Retirement Health Insurance Account Plan ("RHIA"). See "POST-EMPLOYMENT RETIREMENT BENEFITS" below.

In October 2010, the PERS actuary released the City's 2009 actuarial valuation report (the "2009 City Report"), which includes the City's share of the System's actuarial accrued liabilities and assets as of December 31, 2009 and provides the City's employer contribution rates that are currently in effect (effective from July 1, 2011 through June 30, 2013). In October 2012, Milliman ("Milliman"), the current PERS actuary, released an actuarial valuation for the City as of December 31, 2011 (the "2011 City Report"), which included the City's share of the System's actuarial accrued liability as of December 31, 2011 and provides the City's employer contribution rates effective July 1, 2013 through June 30, 2015.

## **Employer Asset Valuation and Liabilities**

An employer's share of PERS's UAL is the excess of the actuarially determined present value of the employer's benefit obligations to employees over the existing actuarially determined assets available to pay those benefits.

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

The table below is a summary of principal valuation results from the 2009 City Report and the 2011 City Report.

# Table D-1 CITY OF PORTLAND, OREGON Valuation Results for 2009 and 2011 (as of December 31)

	2009	2011
Allocated Pooled T1/T2 UAL/ (surplus)	\$178,802,989	\$260,088,620
Allocated Pooled OPSRP UAL/ (surplus)	3,216,137	5,178,569
Net unfunded pension actuarial		
accrued liability/(surplus)	\$182,019,126	\$265,267,189

Source: City of Portland, Oregon Public Employees Retirement System, 12/31/09 Valuation Report prepared by Mercer Human Resource Consulting and City of Portland, Oregon Public Employees Retirement System, 12/31/11 Valuation Report prepared by Milliman.

Significant actuarial assumptions and methods used in the valuations included: (a) Projected Unit Credit actuarial cost method, (b) asset valuation method based on market value, (c) rate of return on the investment of present and future assets of 8%, (d) payroll growth rate of 3.75%, (e) consumer price inflation of 2.75% per year, and (f) UAL amortization method of a level percentage of payroll over 20 years (fixed) for the T1/T2 Pension Programs and 16 years (fixed) for OPSRP.

The funded status of the System and the City, as reported by Milliman, changes over time depending on the market performance of the securities that the Oregon Public Employees Retirement Fund (the "OPERF") is invested, future changes in compensation and benefits of covered employees, any additional lump sum deposits made by employers, demographic characteristics of members and methodologies and assumptions used by the actuary in estimating the assets and liabilities of PERS. No assurance can be given that the unfunded actuarial liability of PERS and of the City will not materially increase.

## **Employer Contribution Rates**

Employer contribution rates are based upon the current and projected cost of benefits and the anticipated level of funding available from the OPERF, including known and anticipated investment performance of the OPERF. The City's current employer contribution rates are based on the 2009 City Report. These rates became effective on July 1, 2011 and are effective through June 30, 2013.

In January 2010, the PERS Board adopted a revised implementation of the rate collar limiting increases in employer contribution rates from biennium to biennium (the "Rate Collar"). Under normal conditions, the Rate Collar is the greater of three percent of payroll or 20 percent of the current base rate. If the funded status of the SLGRP is below 80 percent, the Rate Collar increases by 0.3 percent for every percentage point under the 80 percent funded level until it reaches six percent at the 70 percent funded level. According to the actuarial valuation for the System as of December 31, 2009, the SLGRP was 77 percent funded, resulting in a Rate Collar of 3.9 percent. The Rate Collar limits increases in employer contribution rates before rate reductions from side accounts are deducted, and does not cover charges associated with RHIA and the Retiree Health Insurance Premium Account ("RHIPA"). Because the 2011-2013 employer contribution rates were reduced by the Rate Collar, further rate increases are deferred to future biennia, including the 2013-2015 biennium. Moreover, in the actuarial valuation report for the System as of December 31, 2011, Milliman stated that the SLGRP has a calculated contribution rate, prior to application of the Rate Collar, which will exceed the maximum rate allowed by the Rate Collar. The Rate Collar will reduce the SLGRP's contribution rates for the 2013-2015 biennium by 2.2 percent. If all actuarial assumptions are met in 2012 and 2013, that deferred increase will be reflected in contribution rates for the 2015-2017 biennium.

The table below shows the City's current employer contribution rates based on the 2009 City Report and the employer contribution rates identified in the 2011 City Report.

# Table D-2 CITY OF PORTLAND, OREGON Current Employer Contribution Rates and Advisory Rates (Percentage of Covered Payroll)

	<b>C</b>	Current Rat 2011-2013	es	]	Future Rate 2013-15	s
	T1/T2	OPSRP General	OPSRP P&F	T1/T2	OPSRP General	OPSRP P&F
Total net pension contribution rate	8.71%	7.19%	9.90%	13.15%	11.43%	14.16%

Source: City of Portland, Oregon Public Employees Retirement System, 12/31/09 Valuation Report prepared by Mercer Human Resource Consulting and City of Portland, Oregon Public Employees Retirement System, 12/31/11 Valuation Report prepared by Milliman.

For FY 2011-12, one percent of covered payroll for the three pension benefit programs was approximately: \$1,810,161 for T1/T2 Pension Programs; \$940,323 for OPSRP general services; and \$228,934 for OPSRP police and fire. The City's contribution rates may increase or decrease due to a variety of factors, including the investment performance of the OPERF, the use of reserves, further changes to system valuation methodology and assumptions and decisions by the PERS Board and changes in benefits resulting from legislative modifications.

T1/T2 Pension Programs employees and OPSRP employees are required by state statute to contribute six percent of their annual salary to the respective programs. Employers are allowed to pay any or all of the employees' contribution in addition to the required employers' contribution. The City has elected to make the employee contribution. An employer also may elect via written employment policy or agreement to make additional employer contributions to its employees' IAP accounts in an amount that can range from not less than one percent of salary to no more than six percent of salary and must be a whole percentage. Employers may make this policy or agreement for specific groups of their employees. The City has elected to make an optional contribution to the IAP accounts of public safety employees hired after January 1, 2007 of an additional three percent of their annual salary. The rates reported in Table D-2 above do not include the six percent and nine percent employee contribution rates for contributions to the IAP paid by the City.

In addition to the City's employer rate, each City bureau is required to make a contribution to pay debt service on outstanding Limited Tax Pension Obligation Revenue Bonds originally issued in FY 1999-2000 to fund the City's share of the unfunded actuarial liabilities of PERS as of December 31, 1997.

## Fire and Police Disability and Retirement Fund

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

Effective July 1, 1990, the FPDR Plan was amended to create the FPDR Two tier, which provides for the payment of benefits upon termination of employment on or after attaining age fifty-five, or on or after attaining age fifty if the member has twenty-five or more years of service. Members become 100 percent vested after five years of service. Members enrolled in the FPDR

Plan prior to July 1, 1990 were required to make an election as to whether they wished to fall under the provisions of the FPDR Plan as constituted prior to July 1, 1990 (now called FPDR One) or become subject to the new FPDR Two provisions after June 30, 1990.

On November 7, 2006, voters in the City of Portland passed a measure that created the FPDR Three tier and changed the retirement plan benefits of new members to OPSRP. The FPDR levy pays the employee and employer portions of the OPSRP contribution. This move is expected to increase property taxes for 35 years. Performance audits have been implemented to assess the implementation of the FPDR Plan reforms. The initial and follow-up disability program audits have been performed, and a pension program audit was completed in January 2010.

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

The November 6, 2012 ballot measure also clarified final pay calculations, eliminated a provision to increase vested termination benefits if the member was subsequently employed in PERS-covered service prior to FPDR retirement, and reduced the eligibility threshold for non-service connected death before retirement from ten years of service to five.

The FPDR Plan is funded by a special property tax levy which cannot exceed two and eight-tenth mils on each dollar of valuation of property (\$2.80 per \$1,000 of real market value) not exempt from such levy. In the event that funding for the FPDR Plan is less than the required payment of benefits to be made in any particular year, the FPDR Fund could receive advances from the FPDR Reserve Fund first and other City funds second, to make up the difference. Repayment of advances, if any, would be made from the special property tax levy in the succeeding year. In the event that the special property tax levy is insufficient to pay benefits because benefits paid exceed the two and eight-tenth mills limit, other City funds would be required to make up the difference. The FY 2012-13 levy of \$123,564,952 required a tax rate of \$2.6080 per \$1,000 of assessed property value, or approximately \$1.5466 per \$1,000 of gross real market value.

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

The FPDR Fund's Board periodically assesses the future availability of property tax revenues by having projections and simulations performed in connection with the Actuarial Valuation of the Fund. The most recent assessment was as of June 30, 2012. The Fund's Board believes that, under a wide range of simulated economic scenarios in the foreseeable future, the future FPDR Fund levy would remain under \$2.80 per \$1,000 of real market value, but reaching the \$2.80 threshold has a five percent or greater probability level starting in fiscal year 2028 and an almost 10 percent probability in fiscal year 2030. The levy requirement is expected to begin declining in fiscal year 2031.

Recognizing that the economic conditions have changed significantly over the past few years, the City reviewed the discount rate and assumptions utilized in the calculations of the actuarial valuation, including actuarial accrued pension liabilities and net pension obligation, and determined they should be revised to more closely match the funding and investment returns that actually are achieved under existing investment. The City revised the rate for the June 30, 2012, valuation from 4.00 percent to 3.50 percent. This change increased the unfunded actuarial liability by \$226 million. Overall the unfunded actuarial liability increased from \$2.53 billion on July 1, 2010 to \$2.88 billion on July 1, 2012.

## Recent Pension Review by Moody's

On April 17, 2013, Moody's Investors Service announced that it has placed the following bonds of the City under review for a possible downgrade as a result of the rating agency's new methodology for analyzing state and local government pension obligations: General Obligation bonds, Limited Tax General Obligation bonds, Housing Revenue bonds, Gas Tax bonds and certain Urban Renewal and Redevelopment bonds. The Moody's review announcement does not include the City's Water System Revenue Bonds, including the 2013 Series A Bonds, among the City's bonds that are under review for possible downgrade.

Moody's announcement is an indication that they will pursue additional analysis. As noted below, the City believes that Moody's new methodology does not adequately value the resources available to the City for its pension obligations. The City expects to provide information to Moody's in the coming weeks.

# No Effect on the City's Second Lien Water System Revenue and Refunding Bonds, 2013 Series A

Moody's action is based on its analysis of the City's unfunded liability for its Fire and Police Disability and Retirement ("FPDR") plan. The revenues of the City's Water System may be used only for requirements of the Water System, and therefore are not available to fund the FPDR plan. The City does not expect issues related to the FPDR plan to have a material, adverse effect on the Water System, the Water System revenues or the Water System Revenue Bonds, including the 2013 Series A Bonds.

# Additional Information Relating to Moody's Action

According to Moody's, local governments whose ratings have been placed on review have large adjusted net pension liabilities relative to their rating category. The median ratio of Moody's adjusted net pension liability to annual operating revenues as of fiscal 2011 is under 100%. The threshold for Aaa-rated governments to be placed under review as a result of this metric was 300%.

For the City, Moody's identified a total of \$2.8 billion of unfunded liability, including the unfunded liability for the City's Public Employee Retirement System ("PERS") plan of approximately \$0.3 billion and its FPDR plan of approximately \$2.5 billion. Based on this methodology, Moody's identified annual operating revenues of \$791 million, resulting in net pension liability to operating revenue ratio of approximately 350%.

The City believes that Moody's revised pension methodology does not accurately capture the resources that are dedicated to funding the City's FPDR plan, which represents the largest portion of the unfunded pension liability under the Moody's methodology. Under the City charter and Article XI, Section 11 of the Oregon Constitution, the City is entitled to impose a dedicated annual property tax levy, collections of which are sufficient to meet the pension obligations of the FPDR plan due each year. Oregon law does not allow the City to levy to pay future FPDR plan benefits. The Moody's methodology does not account for funding that the City will receive from the FPDR levy in future years.

The Charter requires the City Council to levy a tax sufficient to provide the amount required to meet FPDR plan obligations, but the levy cannot be imposed at a rate greater than \$2.80 per \$1,000 of real market value. In FY 2011-12, the levy was \$1.34 per \$1,000 of real market value. The City currently projects that the dedicated FPDR levy is highly likely to be sufficient to fund annual benefits under the FPDR plan in all future years. In the event that the levy is not sufficient to meet the required benefit payments in any year, the FPDR Fund could receive funds first from the FPDR Reserve Fund and second from other City funds that are legally able to provide such amounts, including the City's General Fund.

#### OTHER POST-EMPLOYMENT RETIREMENT BENEFITS ("OPEB")

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

#### **PERS Program**

Retirees who receive pension benefits through the T1/T2 Pension Programs and are enrolled in certain PERS-administered health insurance programs may also receive a subsidy towards the payment of health insurance premiums. Under ORS 238.420, retirees may receive a subsidy for Medicare supplemental health insurance of up to \$60 per month towards the cost of their health insurance premiums under the RHIA program. RHIA's assets and liabilities are pooled on a system-wide basis. These assets and liabilities are not tracked or calculated on an employer basis. The City's allocated share of the RHIA program's assets and liabilities is based on the City's proportionate share of the program's pooled covered payroll. According to the 2009 City Report, the City's allocated share of the RHIA program's UAL is \$10,603,769 as of December 31, 2009, and according to the 2010 City Report, the City's allocated share of the RHIA program's UAL is \$11,064,746 as of December 31, 2010.

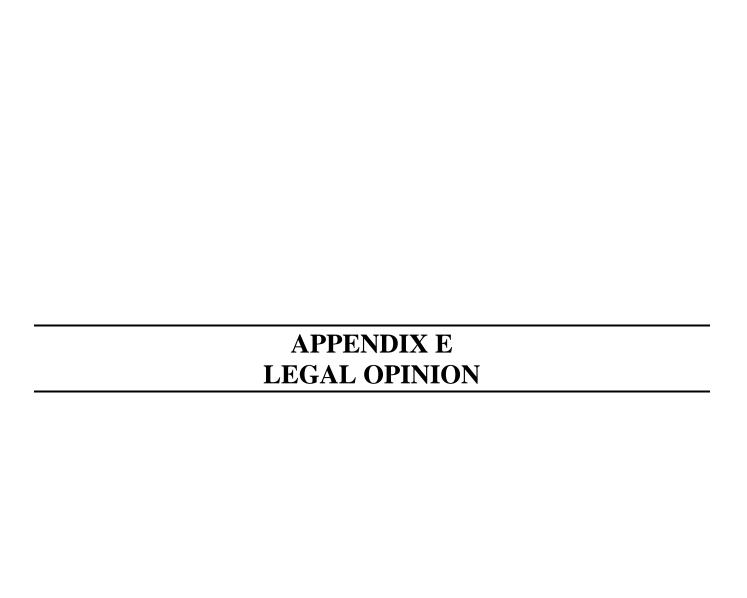
The City's current total contribution rate to fund RHIA benefits for T1/T2 employees is 0.59 percent and for OPSRP general services employees and police and fire employees is 0.50 percent.

# **Health Insurance Continuation Option**

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

The OPEB liability associated with the Health Insurance Continuation Option is an actuarially determined amount calculated in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The valuation was prepared using the Entry Age Normal actuarial cost method and amortized over an open period of 30 years using the level percentage of projected pay. Other assumptions include a 3.5 percent investment rate of return, and annual healthcare cost trend rates of one to 9.5 percent for health insurance, zero to six percent for dental insurance, and zero to three percent for vision. The City's unfunded actuarial accrued liability for OPEB is solely attributable to the Health Insurance Continuation Option and at the valuation date of July 1, 2011 (the date of the most recent actuarial valuation), is estimated to be \$104,946,292. Actuarial valuations for the Health Insurance Continuation Option are undertaken every two years. A new valuation study will be undertaken for reporting the OPEB liability as of July 1, 2013.

For FY 2011-12, the annual required contribution (the "ARC") of the employer to be recognized as the annual employer OPEB cost was \$9,395,189. For fiscal year ended June 30, 2012, the City benefits paid on behalf of retirees exceeded the premiums they paid by \$3,694,083. The City elected to not pre-fund the FY 2011-12 employer's annual required contribution to the plan (ARC) of \$9,395,189. The amount unfunded in FY 2011-12 is \$32,415,855, which is the OPEB obligation from the beginning of the fiscal year, plus the ARC for FY 2011-12, less payments made in relation to the FY 2011-12 ARC. The City expects to use a pay-as-you-go approach to fund its actuarial accrued liability and ARC, but will monitor its OPEB liability and assess whether a different approach is needed in future years.





City of Portland 1120 SW Fifth Avenue, Room 1250 Portland, Oregon 97204

> Subject: \$253,635,000 City of Portland, Oregon, Second Lien Water System Revenue and Refunding Bonds, 2013 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 Second Lien Water System Revenue and Refunding Bonds, 2013 Series A (the "2013 Series A Bonds"), which are dated as of their date of delivery and are in the aggregate principal amount of \$253,635,000. The 2013 Series A Bonds are issued pursuant to City Ordinance No. 185916 enacted by the City Council on March 6, 2013 (the "Ordinance"), a Master Second Lien Water System Revenue Bond Declaration dated as of the date of delivery of the 2013 Series A Bonds (the "Master Second Lien Bond Declaration"), and a First Supplemental Bond Declaration dated as of the date of delivery of the 2013 Series A Bonds ("the First Supplemental Bond Declaration" and collectively with the Master Second Lien Bond Declaration, the "Declarations"). Capitalized terms used but not defined in this opinion have the meanings defined for such terms in the Declarations.

We have examined the law and such certified proceedings and other documents as we deem necessary to render this opinion.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering materials which has been or may be supplied to the purchasers of the 2013 Series A Bonds, and we express no opinion relating thereto, excepting only the matters set forth as our opinion in the official statement.

Regarding questions of fact material to our opinion, we have relied on representations of the City in the Ordinance and in the Declarations and in the certified proceedings and on other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

- 1. The 2013 Series A Bonds have been legally authorized, sold and issued under and pursuant to the Constitution and Statutes of the State of Oregon, the Charter of the City, and the Ordinance. The 2013 Series A Bonds constitute valid and legally binding obligations of the City enforceable in accordance with their terms.
- 2. The 2013 Series A Bonds are special, limited obligations of the City that are secured solely by and payable solely from the Net Revenues of the City's Water System and related amounts that are pledged to pay Second Lien Bonds as provided in the Declarations.
- 3. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described below, (i) interest on the 2013 Series A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the 2013 Series A Bonds is not treated as a preference item in calculating the

alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. Bond counsel further is of the opinion that, for any 2013 Series A Bonds having original issue discount (a "Discount Bond"), original issue discount that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the 2013 Series A Bonds. In rendering our opinion, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the City and others in connection with the 2013 Series A Bonds, and we have assumed compliance by the City and others with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the 2013 Series A Bonds from gross income under Section 103 of the Code.

The Code establishes certain requirements that must be met subsequent to the issuance and delivery of the 2013 Series A Bonds in order that, for Federal income tax purposes, interest on the 2013 Series A Bonds not be included in gross income pursuant to Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of proceeds of the 2013 Series A Bonds, restrictions on the investment of proceeds of the 2013 Series A Bonds prior to expenditure and the requirement that certain earnings be rebated to the Federal government. Noncompliance with such requirements may cause interest on the 2013 Series A Bonds to become subject to Federal income taxation retroactive to their date of issue, irrespective of the date on which such noncompliance occurs or is ascertained.

On the date of delivery of the 2013 Series A Bonds, the City will execute a Tax Certificate (the "Tax Certificate") containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Certificate, the City covenant that it will comply with the provisions and procedures set forth therein and that it will do and perform all acts and things required by the Code to assure that interest paid on the 2013 Series A Bonds will, for Federal income tax purposes, be excluded from gross income.

In rendering the opinion in paragraph 3 hereof, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Certificate with respect to matters affecting the status of interest paid on the 2013 Series A Bonds, and (ii) compliance by the City with the procedures and covenants set forth in the Tax Certificate as to such tax matters.

# 4. Interest on the 2013 Series A Bonds is exempt from Oregon personal income tax.

Except as stated in paragraphs 3 and 4 above, we express no opinion as to any other Federal, state or local tax consequences arising with respect to the 2013 Series A Bonds or the ownership or disposition thereof. We render our opinion under existing statutes and court decisions as of the issue date, and we assume no obligation to update, revise or supplement this opinion after the issue date to reflect any action hereafter taken or not taken, or any facts or circumstances, or any change in law or in interpretations thereof, or otherwise, that may hereafter arise or occur, or for any other reason. Furthermore, we express no opinion herein as to the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel other than ourselves on the exclusion from gross income for Federal income tax purposes of interest on the Bonds.

The portion of this opinion that is set forth in paragraph 1, above, is qualified only to the extent that enforceability of the 2013 Series A Bonds may be limited by or rendered ineffective by (i) bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other 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; and (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 given as of the date hereof and is based on existing law, and we assume no obligation to update, revise, or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to our attention or any changes in law or interpretations thereof that may hereafter arise or occur, or for any other reason.

This 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.

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 this opinion.

We have served as bond counsel only to the City in connection with the 2013 Series A Bonds and have not represented any other party in connection with the 2013 Series A Bonds. This opinion is given solely for the benefit of the City in connection with the 2013 Series A Bonds and may not be relied on in any manner or for any purpose by any person or entity other than the City, the owners of the 2013 Series A Bonds, and any person to whom we may send a formal reliance letter, indicating that the recipient is entitled to rely on this opinion.

Very truly yours,







#### CONTINUING DISCLOSURE CERTIFICATE

# \$253,635,000

# City of Portland, Oregon Second Lien Water System Revenue and Refunding Bonds 2013 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 Second Lien Water System Revenue and Refunding Bonds, 2013 Series A (the "Bonds").

Section 1. <u>Purpose of Certificate</u>. This Certificate is being executed and delivered by the City for the benefit of the Bondowners and to assist the underwriter(s) of the Bonds in complying with paragraph (b)(5) of the Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. § 240.15c2-12) as amended, (the "Rule"). This Certificate constitutes the City's written undertaking for the benefit of the Bondowners as required by Section (b)(5) of the Rule.

Section 2. <u>Definitions</u>. 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 Bonds, including persons holding Bonds through nominees or depositories.

"Bondowners" means the registered owners of the Bonds, as shown on the bond register maintained by the Paying Agent for the Bonds, and any Beneficial Owners.

"Commission" means the Securities and Exchange Commission.

"EMMA" means the Electronic Municipal Market Access system for municipal securities disclosure established by the MSRB and accessible at http://emma.msrb.org/.

"MSRB" means the Municipal Securities Rulemaking Board or any successor to its functions.

"Official Statement" means the final official statement for the Bonds dated April 23, 2013.

"Rule" means the Commission's Rule 15c2-12 under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. <u>Financial Information</u>. The City agrees to provide or cause to be provided to the MSRB, the following annual financial information and operating data:

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 body of the Official Statement under the heading "Water System Operating and Financial Information" and in Appendix D: "City Operating and Financial Information."

Section 4. <u>Timing</u>. The information described in Section 3 above shall be provided by the City for each of its fiscal years in which the Bonds are outstanding. The City shall provide that information not later than nine months after the end of each fiscal year, commencing no later than March 31, 2014, for the fiscal year ended June 30, 2013. 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 the MSRB. In lieu of providing such annual financial information and operating data, the City may cross-reference to other documents provided to the MSRB.

Section 5. <u>Material Events</u>. The City to provide or cause to be provided to the MSRB in a timely manner not in excess of ten business days after the occurrence of the event, notice of any of the following events with respect to the Bonds:

- (a) Principal and interest payment delinquencies;
- (b) Non-payment related defaults, if material;
- (c) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) Substitution of credit or liquidity providers or their failure to perform;
- (f) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
  - (g) Modifications to the rights of security holders, if material;
  - (h) Bond calls, if material, and tender offers;
  - (i) Defeasances;
- (j) Release, substitution or sale of property securing repayment of the securities, if material;
  - (k) Rating changes;
- (l) Bankruptcy, insolvency, receivership or similar event of the obligated person; (Note: For the purposes of the event identified in this paragraph (l), the event is considered to occur when any of the following occur: The appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the United States

Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.);

- (m) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (n) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

The City may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, if, in the judgment of the City, such other event is material with respect to the Bonds, but the City does not undertake any commitment to provide such notice of any event except those events listed above.

Section 6. <u>Failure to File Annual Financial Information</u>. The City agrees to provide or cause to be provided, in a timely manner, to the MSRB, notice of a failure by the City to provide the annual financial information described in Section 3 above on or prior to the time set forth in Section 3.

Section 7. <u>Termination</u>. The City's obligation to provide notices of material events shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 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 Bonds; and (b) notifies the MSRB of such opinion and the termination of its obligations under this Certificate.

Section 8. <u>Amendment</u>. Notwithstanding any other provision of this Certificate, the City may amend this Certificate provided that the following conditions are satisfied:

- A. If the amendment 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 Bonds, or the type of business conducted;
- B. If this Certificate, as amended, 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 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

C. The amendment either (i) is approved by the Bondowners in the same manner as amendments to the Bond Declaration in effect at the time of the amendment or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Bondowners.

In the event of any amendment of a provision of this Certificate, the City shall describe such amendment in its next annual filing pursuant to Section 3 of this Certificate, and shall include, as applicable, a narrative explanation of the reason for the amendment 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 the amendment shall be given in the same manner as for a material event under Section 5 hereof, and (ii) the annual filing pursuant to Section 3 of this Certificate for the first fiscal year that is affected by the change in accounting principles shall 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 9. <u>Bondowner's Remedies Under This Certificate</u>. The right of any 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 Bonds. 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 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.

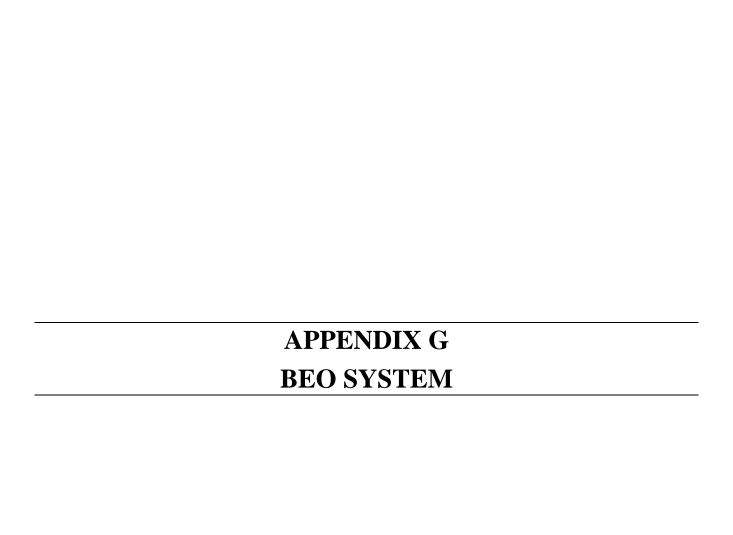
Section 10. <u>Form of Information</u>. All information required to be provided under this certificate will be provided in an electronic format as prescribed by the MSRB.

Section 11. <u>Filing with EMMA</u>. Any filings required by this certificate to be made with the MSRB may be made through EMMA so long as it is approved by the MSRB.

Section 12. <u>Choice of Law</u>. 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 2 <sup>nd</sup> day of May,	2013.
	City of Portland, Oregon
	Debt Manager







# **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.]
- DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking 2. 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 a Standard & Poor's rating of AA+. 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.
- 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 DTC 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 the 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 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 any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI 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 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, 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 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 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.



