

City of Portland, Oregon**\$86,165,000****First Lien Sewer System
Revenue Refunding Bonds
2014 Series A****\$204,220,000****Second Lien Sewer System
Revenue Bonds
2014 Series B****BASE CUSIP: 736742****DATED:** Date of Delivery**DUE:** October 1, as shown on inside cover**This cover page contains certain information for quick reference only. It is not a summary of the issue. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.**

Ratings	2014 Series A: Moody's Aa2; Standard & Poor's AA 2014 Series B: Moody's Aa3; Standard & Poor's AA-
Tax Status	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 2014 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 2014 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 2014 Bonds is exempt from Oregon personal income tax under existing law. See "TAX MATTERS" herein for a discussion of the opinion of Bond Counsel.
Security	The 2014 Series A Bonds are secured by a first lien on, and are payable solely from, the Net Revenues and amounts required to be deposited in the Debt Service Account and Reserve Account as provided in City Ordinance No. 160276, as amended, supplemented and clarified by subsequent ordinances (the "Master First Lien Bond Ordinance"). The 2014 Series B Bonds are secured by a subordinate lien on, and are payable solely from, the Net Revenues and amounts required to be deposited in the Second Lien Bond Account and Second Lien Revenue Bond Reserve Account as provided in the Master Second Lien Sewer Revenue Bond Declaration (the "Master Second Lien Bond Declaration"). The lien of the pledge that secures the 2014 Series B Bonds is subordinate to the lien on the Net Revenues that secures the First Lien Bonds that the City has issued (including the 2014 Series A Bonds), and may issue in the future, under the Master First Lien Bond Ordinance. The 2014 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 2014 Bonds. No recourse may be had against any funds or assets of the City (other than the Net Revenues of the Sewer System and the accounts described in this paragraph) to enforce payment of any amounts owing under or with respect to the 2014 Bonds. See "PROVISIONS OF THE 2014 BONDS" herein.
Purpose	The 2014 Series A Bonds will be used to refund certain maturities of the City's Sewer System Revenue Bonds, 2004 Series A, to pay the premium for a municipal bond debt service reserve insurance policy, and to pay the costs of issuance of the 2014 Series A Bonds. The 2014 Series B Bonds are being issued to finance certain capital facilities and improvements to the sanitary sewer and stormwater drainage system (the "System" or "Sewer System") owned and operated by the City, to fund the Second Lien Bond Reserve Requirement for the 2014 Series B Bonds, and to pay issuance costs.
Interest Payment Dates	April 1 and October 1, commencing April 1, 2015.
Principal Payment Dates	October 1, as shown on inside cover.
Denominations	\$5,000 and any integral multiple thereof.
Redemption	The 2014 Series A Bonds are not subject to redemption at the option of the City. The 2014 Series B Bonds maturing on or after October 1, 2025, are subject to redemption at the option of the City at a price of par on October 1, 2024 or any date thereafter.
Closing/Settlement	On or about August 14, 2014.
Book Entry System	The Depository Trust Company.
Bond Counsel	Hawkins Delafield & Wood LLP, Portland, Oregon.
Paying Agent	U.S. Bank National Association.

MATURITY SCHEDULES

\$86,165,000

**FIRST LIEN SEWER SYSTEM REVENUE REFUNDING BONDS
2014 SERIES A**

<u>Due October 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP No.* 736742</u>
2015	\$6,805,000	5.00%	0.15%	UU9
2016	7,160,000	5.00	0.35	UV7
2017	7,525,000	5.00	0.67	UW5
2018	7,915,000	5.00	0.98	UX3
2019	8,320,000	5.00	1.32	UY1
2020	8,745,000	5.00	1.59	UZ8
2021	9,190,000	5.00	1.87	VA2
2022	9,670,000	5.00	2.09	VB0
2023	10,155,000	5.00	2.28	VC8
2024	10,680,000	5.00	2.37	VD6

\$204,220,000

**SECOND LIEN SEWER SYSTEM REVENUE BONDS
2014 SERIES B**

<u>Due October 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP No.* 736742</u>
2015	\$4,460,000	5.00%	0.20%	VE4
2016	4,690,000	5.00	0.35	VF1
2017	4,930,000	5.00	0.72	VG9
2018	5,185,000	5.00	1.05	VH7
2019	5,450,000	5.00	1.38	VJ3
2020	5,730,000	5.00	1.68	VK0
2021	6,025,000	5.00	1.95	VL8
2022	6,330,000	5.00	2.17	VM6
2023	6,655,000	5.00	2.40	VN4
2024	7,000,000	5.00	2.50	VP9
2025	7,355,000	5.00	2.65†	VQ7
2026	7,735,000	5.00	2.77†	VR5
2027	8,050,000	3.00	3.15	VS3
2028	8,295,000	3.00	3.25	VT1
2029	8,590,000	4.00	3.26†	VU8
2030	8,940,000	4.00	3.33†	VV6
2031	9,305,000	4.00	3.40†	VW4
2032	9,685,000	4.00	3.47†	VX2
2033	10,080,000	4.00	3.52†	VY0
2034	10,490,000	4.00	3.57†	VZ7
2035	10,920,000	4.00	3.59†	WA1
2036	11,365,000	4.00	3.64†	WB9
2037	11,830,000	4.00	3.69†	WC7
2038	12,310,000	4.00	3.72†	WD5
2039	12,815,000	4.00	3.74†	WE3

† Priced to par call on October 1, 2024.

* CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. The City is not responsible for the selection or correctness of the CUSIP numbers set forth herein.

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

**\$86,165,000
FIRST LIEN SEWER SYSTEM
REVENUE REFUNDING BONDS
2014 SERIES A**

**\$204,220,000
SECOND LIEN SEWER SYSTEM
REVENUE BONDS
2014 SERIES B**

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 (1)
Jennifer Cooperman, City Treasurer
Tracy Reeve, City Attorney

Fred Miller, Chief Administrative Officer

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Portland, Oregon

FINANCIAL ADVISOR

Public Financial Management, Inc.
Portland, Oregon

Notes:

- (1) On May 20, 2014, Mary Hull Caballero received a majority of votes in Portland's 2014 Primary Election for the position of Portland City Auditor. She will take office on January 1, 2015.

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 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.

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 2014 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The 2014 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon a specific exemption contained in such act, nor have the 2014 Bonds been registered under the securities laws of any state.

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

In connection with this offering, the successful bidder may over allot or effect transactions which stabilize or maintain the market price of the 2014 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued, and if discontinued, then recommenced, at any time.

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

\$86,165,000
First Lien Sewer System
Revenue Refunding Bonds
2014 Series A

\$204,220,000
Second Lien Sewer System
Revenue Bonds
2014 Series B

INTRODUCTION

The purpose of this Official Statement is to set forth certain information concerning the City of Portland, Oregon (the “City”), the municipally-owned sewer and stormwater drainage system of the City (the “System” or “Sewer System”), the City’s First Lien Sewer System Revenue Refunding Bonds, 2014 Series A (the “2014 Series A Bonds”), and the City’s Second Lien Sewer System Revenue Bonds, 2014 Series B (the “2014 Series B Bonds” and collectively with the 2014 Series A Bonds, the “2014 Bonds”) dated as of the Date of Delivery.

The 2014 Bonds will be sold in accordance with City Ordinance No. 186640 adopted by the City Council on June 11, 2014 (the “Ordinance”). The Ordinance authorizes the Debt Manager to execute bond declarations to specify the terms under which the 2014 Bonds are issued and the administrative provisions that apply to the 2014 Bonds, and to provide any covenants that apply to the 2014 Bonds that are not contained in City Ordinance No. 160276 as amended (the “Master First Lien Bond Ordinance”), the Amended Master Second Lien Sewer System Revenue and Refunding Bond Declaration executed on June 19, 2003, (the “Master Second Lien Bond Declaration”), or the Ordinance.

The 2014 Series A Bonds are secured by a first lien on, and are payable solely from, the Net Revenues and amounts required to be deposited in the Debt Service Account and Reserve Account as provided in the Master First Lien Bond Ordinance. The 2014 Series A Bonds are issued on parity with outstanding obligations and future borrowings issued under the Master First Lien Bond Ordinance (collectively referred to herein as the “First Lien Bonds”).

The 2014 Series B Bonds are secured by a subordinate lien on, and are payable solely from, the Net Revenues and amounts required to be deposited in the Second Lien Bond Account and Second Lien Revenue Bond Reserve Account as provided in the Master Second Lien Bond Declaration. The 2014 Series B Bonds are issued on parity with outstanding and future obligations issued under the Master Second Lien Bond Declaration (collectively, referred to herein as the “Second Lien Bonds”). The lien that secures the Second Lien Bonds is subordinate to the lien on the Net Revenues that secures the bonds issued under the Master First Lien Bond Ordinance, and may issue in the future, under the Master First Lien Bond Ordinance.

The City’s Debt Manager will execute a Bond Declaration for the 2014 Series A Bonds (the “2014 First Lien Bond Declaration”) to establish the specific terms and conditions of the 2014 Series A Bonds. The City’s Debt Manager will execute a Supplemental Bond Declaration for the 2014 Series B Bonds (the “2014 Second Lien Supplemental Bond Declaration”) to establish the specific terms and conditions of the 2014 Series B Bonds.

The body of this Official Statement briefly summarizes many of the provisions of the Master First Lien Bond Ordinance, the 2014 First Lien Bond Declaration (and collectively with the Master First Lien Bond Ordinance, the “First Lien Bond Declaration”), the Master Second Lien Bond Declaration, and the 2014 Second Lien Supplemental Bond Declaration (and collectively with the Master Second Lien Bond Declaration, the “Second Lien Bond Declaration”), and does not purport to be complete.

Under the 2014 First Lien Bond Declaration, the City has reserved the right to make a variety of amendments to the Master First Lien Bond Ordinance without the consent of the Owners of the 2014 Series A Bonds. See “PROVISIONS OF THE 2014 BONDS— CONSENT OF OWNERS OF 2014 BONDS TO FUTURE AMENDMENTS” and APPENDIX C, “2014 SERIES A BOND

DECLARATION,” Section 13. **By purchasing the 2014 Series A Bonds, the Owners of the 2014 Series A Bonds are deemed to have consented to such amendments.**

Under the 2014 Second Lien Supplemental Bond Declaration, the City has reserved the right to make a variety of amendments to the Master Second Lien Bond Declaration without the consent of the Owners of the 2014 Series B Bonds. See “PROVISIONS OF THE 2014 BONDS—CONSENT OF OWNERS OF 2014 BONDS TO FUTURE AMENDMENTS” and APPENDIX D, “2014 SERIES B SUPPLEMENTAL BOND DECLARATION,” Section 9. **By purchasing the 2014 Series B Bonds, the Owners of the 2014 Series B Bonds are deemed to have consented to such amendments. Additionally, once such amendments have been executed, the City reserves the right to reduce the amount held in the debt service reserve subaccount for the 2014 Series B Bonds. The Owners of the 2014 Series B Bonds are deemed to have consented to this reduction.** See “PROVISIONS OF THE 2014 BONDS—SECOND LIEN BOND RESERVE ACCOUNT—The 2014 Series B Reserve Subaccount” herein.

The body of this section of this Official Statement only contains summaries of the provisions of the First Lien Bond Declaration and the Second Lien Bond Declaration. Capitalized terms that are used but not defined in the body of this Official Statement have the meanings defined for those terms in the First Lien Bond Declaration or the Second Lien Bond Declaration. The 2014 First Lien Bond Declaration and the 2014 Second Lien Supplemental Bond Declaration will have the interest rates, payment, defeasance, and other terms of the 2014 Bonds added after the 2014 Bonds are sold. To understand the terms of those documents, readers must review the entire documents, copies of which are attached as APPENDIX A through APPENDIX D, inclusive.

THE 2014 BONDS

DESCRIPTION

The 2014 Bonds are special obligations of the City, payable solely from the Net Revenues of the City’s Sewer System and certain dedicated accounts, as more fully described herein. The 2014 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 payment of principal of, or premium, if any, or interest on the 2014 Bonds. No recourse may be had against any funds or assets of the City (other than the Net Revenues of the Sewer System and the dedicated accounts) to enforce payment of any amounts owing under or with respect to the 2014 Bonds.

AUTHORIZATION AND PURPOSE

The 2014 Bonds are being issued pursuant to ORS 287A.150 (the “Act”), which permits the City to authorize revenue bonds for any lawful purpose by enacting an ordinance that is subject to referendum. The 2014 Bonds were authorized by the Ordinance, which was subject to referendum and was not referred, and the period for referring the Ordinance has ended.

The 2014 Series A Bonds are being issued to refund the October 1, 2015 through October 1, 2024 maturities of the City’s Sewer System Revenue Bonds, 2004 Series A (the “Refunded Bonds”). See “THE 2014 SERIES A BONDS—REFUNDING PLAN” herein. Proceeds of the 2014 Series A Bonds also will be used to pay the premium for a municipal debt service reserve insurance policy and to pay costs of issuance. (See “—ESTIMATED SOURCES AND USES OF BOND PROCEEDS” and “PROVISIONS OF THE 2014 BONDS –FIRST LIEN BOND RESERVE ACCOUNT” herein.)

The 2014 Series B Bonds are being issued to fund capital improvements to the City’s Sewer System including projects related to the following programs:

- Maintenance and Reliability,
- Sewage Treatment Systems,
- Stormwater Quality, and
- System Development.

Additionally, proceeds of the 2014 Series B Bonds will be used to fund the Second Lien Bond Reserve Requirement for the 2014 Series B Bonds and to pay costs of issuance. (See “—ESTIMATED SOURCES AND USES OF BOND PROCEEDS” and “PROVISIONS OF THE 2014 BONDS – SECOND LIEN BOND RESERVE ACCOUNT” herein.)

FORM

The 2014 Bonds will be issued in fully-registered book-entry only (“BEO”) form without coupons in denominations of \$5,000 or integral multiples thereof. The 2014 Bonds will be issued subject to the BEO System of registration, transfer and payment operated by The Depository Trust Company, New York, New York (“DTC”), and will be subject in all respects to the rules,

regulations and agreements pertaining to such BEO System. In accordance with the BEO System, the 2014 Bonds, when executed and delivered, will be registered in the name of Cede & Co., as registered owner and nominee for DTC. One fully-registered bond certificate will be issued for each maturity of the 2014 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

Purchasers of the 2014 Bonds who are the Beneficial Owners thereof will not receive certificates evidencing their ownership interests in the 2014 Bonds. While Cede & Co. is the registered owner of the 2014 Bonds (in such capacity, the “Owner”) as nominee of DTC, it shall be treated in all respects as the sole Owner of the 2014 Bonds and shall have the right to exercise (in lieu of the Beneficial Owners of the 2014 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 2014 Bonds under the Bond Declaration or applicable law. So long as the 2014 Bonds are subject to the BEO System, all registrations and transfers of beneficial ownership of the 2014 Bonds will be made only through the BEO System. (See APPENDIX J for a discussion of the BEO System.)

MATURITY AND PAYMENT

The 2014 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 2014 Bonds will be due and payable semiannually on April 1 and October 1 of each year, commencing April 1, 2015.

So long as the 2014 Bonds are subject to the BEO System, all payments of the principal of and interest on the 2014 Bonds shall be remitted by the Registrar and Paying Agent, currently U.S. Bank National Association (the “Paying Agent”) directly to DTC. DTC, in turn, will be required to distribute such payments to DTC Participants, and the DTC Participants will be responsible for ultimate distribution of such payments to the Beneficial Owners of the 2014 Bonds. The City has no responsibility for the distribution of any payments on the 2014 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 J herein.

REDEMPTION OF THE 2014 BONDS

Optional Redemption

The 2014 Series A Bonds are not subject to redemption at the option of the City. The 2014 B Bonds maturing on or after October 1, 2025, are subject to redemption at the option of the City on October 1, 2024, and on any date thereafter, in any order of maturity and by lot within a maturity, at a price of par, plus interest accrued to the date fixed for redemption. While the 2014 Bonds are in BEO form, if less than all the outstanding 2014 Bonds of a particular maturity are to be redeemed, DTC will select the particular 2014 Bonds in accordance with its customary practices.

Notice of Redemption

While the 2014 Bonds are subject to the BEO System, notice of any redemption shall be given by the Paying Agent only to DTC in accordance with the agreement entered into among the City, the Paying Agent and DTC. It shall be the sole responsibility of DTC to give all notices of redemption to DTC Participants, and the DTC Participants, in turn, shall be responsible for giving such notices to the Beneficial Owners. Neither the City nor the Paying Agent will be responsible for giving any notice of redemption to any Beneficial Owner or any DTC Participant, nor shall the City or the Paying Agent be liable for any failure of DTC or any DTC Participant to give any such notice as described above. Interest on any 2014 Bond or 2014 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 be cancelled by the City at any time before the 2014 Bonds are redeemed. The Paying Agent is required to give notice of any such cancellation to affected Owners of 2014 Bonds as promptly as practicable.

Effect of Notice of Redemption

The Bond Declaration provides that official notice of redemption having been given (other than conditional notices of optional redemption as described above), the 2014 Bonds or portions of 2014 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 2014 Bonds or portion of 2014 Bonds shall cease to bear interest.

REFUNDING PLAN

To achieve debt service savings, the City intends to apply a portion of the proceeds from the sale of the 2014 Series A Bonds to refund the Refunded Bonds. The Refunded Bonds were issued to finance capital improvements of the Sewer System.

A portion of the proceeds of the 2014 Series A Bonds will be placed in an irrevocable escrow fund and 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. If the sale of State and Local Government Securities is suspended by the U.S. Treasury at the time the 2014 Series A Bonds are sold, the City expects to place an amount of proceeds in the escrow fund that are sufficient to pay the principal of, interest on, and any redemption premium on the Refunded Bonds.

The table below shows the Refunded Bonds to be refunded with the 2014 Series A Bonds.

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

CUSIP No.	Refunded	Principal	Redemption	Redemption
736742	Maturity	Amount	Date	Price
<i>First Lien 2004 Series A Bonds</i>				
KM 8	10/1/2015	\$8,090,000	10/1/2014	100%
KN 6	10/1/2016	8,510,000	10/1/2014	100%
KP 1	10/1/2017	8,900,000	10/1/2014	100%
KQ 9	10/1/2018	9,310,000	10/1/2014	100%
KR 7	10/1/2019	9,790,000	10/1/2014	100%
KS 5	10/1/2020	10,290,000	10/1/2014	100%
KT 3	10/1/2021	10,770,000	10/1/2014	100%
KU 0	10/1/2022	11,290,000	10/1/2014	100%
KV 8	10/1/2023	11,860,000	10/1/2014	100%
KW 6	10/1/2024	12,470,000	10/1/2014	100%
TOTAL		\$101,280,000		

Source: City of Portland.

Verification of Mathematical Calculations

Grant Thornton LLP, a firm of independent public accountants (the “Verification Agent”), is expected to 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 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.

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.

ESTIMATED SOURCES AND USES OF BOND PROCEEDS

The anticipated uses of proceeds from the 2014 Bonds are itemized in the following table:

**Table 2
CITY OF PORTLAND, OREGON
Estimated Sources and Uses of 2014 Bond Proceeds**

Sources of Funds	2014 Series A	2014 Series B
Par amount of bonds	\$86,165,000.00	\$204,220,000.00
Original issue premium/(discount)	15,406,561.50	16,800,191.40
Cash contribution	2,447,112.50	0.00
TOTAL SOURCES	\$104,018,674.00	\$221,020,191.40
Uses of Funds		
Deposit to construction fund	\$0.00	\$207,300,000.00
Deposit to refunding escrow	103,725,748.44	0.00
Deposit to debt service reserve account	0.00	13,073,050.00
Underwriter’s discount	114,058.42	512,893.83
Costs of issuance (1)	178,867.14	134,247.57
TOTAL USES	\$104,018,674.00	\$221,020,191.40

Notes:

(1) Includes premium for debt service reserve surety bond for 2014 Series A Bonds.

Source: City of Portland.

The following table presents the estimated debt service on the 2014 Bonds.

Table 3
CITY OF PORTLAND, OREGON
Estimated Debt Service on the 2014 Bonds

Fiscal Year Ending 30-Jun	2014 Series A			2014 Series B		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ -	\$2,716,591	\$2,716,591	\$ -	\$5,498,949	\$5,498,949
2016	6,805,000	4,138,125	10,943,125	4,460,000	8,609,300	13,069,300
2017	7,160,000	3,789,000	10,949,000	4,690,000	8,380,550	13,070,550
2018	7,525,000	3,421,875	10,946,875	4,930,000	8,140,050	13,070,050
2019	7,915,000	3,035,875	10,950,875	5,185,000	7,887,175	13,072,175
2020	8,320,000	2,630,000	10,950,000	5,450,000	7,621,300	13,071,300
2021	8,745,000	2,203,375	10,948,375	5,730,000	7,341,800	13,071,800
2022	9,190,000	1,755,000	10,945,000	6,025,000	7,047,925	13,072,925
2023	9,670,000	1,283,500	10,953,500	6,330,000	6,739,050	13,069,050
2024	10,155,000	787,875	10,942,875	6,655,000	6,414,425	13,069,425
2025	10,680,000	267,000	10,947,000	7,000,000	6,073,050	13,073,050
2026	-	-	-	7,355,000	5,714,175	13,069,175
2027	-	-	-	7,735,000	5,336,925	13,071,925
2028	-	-	-	8,050,000	5,022,800	13,072,800
2029	-	-	-	8,295,000	4,777,625	13,072,625
2030	-	-	-	8,590,000	4,481,400	13,071,400
2031	-	-	-	8,940,000	4,130,800	13,070,800
2032	-	-	-	9,305,000	3,765,900	13,070,900
2033	-	-	-	9,685,000	3,386,100	13,071,100
2034	-	-	-	10,080,000	2,990,800	13,070,800
2035	-	-	-	10,490,000	2,579,400	13,069,400
2036	-	-	-	10,920,000	2,151,200	13,071,200
2037	-	-	-	11,365,000	1,705,500	13,070,500
2038	-	-	-	11,830,000	1,241,600	13,071,600
2039	-	-	-	12,310,000	758,800	13,068,800
2040	-	-	-	12,815,000	256,300	13,071,300
Total	\$86,165,000	\$26,028,216	\$112,193,216	\$204,220,000	\$128,052,899	\$332,272,899

Source: City of Portland.

PROVISIONS OF THE 2014 BONDS

This section describes key provisions of the Master First Lien Bond Ordinance, the Master Second Lien Bond Declaration, the 2014 Series A Bond Declaration, and the 2014 Series B Supplemental Bond Declaration.

SPECIAL OBLIGATION; PLEDGE OF NET REVENUES

The 2014 Series A Bonds are special obligations of the City secured by a first pledge of and lien on, and payable solely from, the Net Revenues of the Sewer System on an equal and ratable (parity) basis with the Outstanding Parity Obligations issued pursuant to the Master First Lien Bond Ordinance and any additional Parity Obligations that may hereafter be issued pursuant to the Master First Lien Bond Ordinance.

The 2014 Series B Bonds are special obligations of the City secured by a pledge of and lien on, and payable solely from, the Net Revenues of the Sewer System and amounts required to be deposited in the Second Lien Bond Account and Second Lien Bond Reserve Account pursuant to the Master Second Lien Bond Declaration. The lien of the pledge that secures the 2014 Series B Bonds is subordinate to the lien on the Net Revenues of the Sewer System that secures the First Lien Bonds, including the 2014 Series A Bonds, but shall otherwise be superior to all other claims and liens except liens and claims for the payment of Operating Expenses.

The 2014 Bonds do not constitute general obligations of the City, and neither the full faith and credit nor the taxing powers of the City is pledged for the payment of the principal of, premium (if any) or interest on the 2014 Bonds. No recourse may be had against any funds or assets of the City (other than the Net Revenues of the Sewer System) to enforce payment of any amounts owing under or with respect to the 2014 Bonds.

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. ORS 287A.150 pursuant to which the 2014 Bonds are being issued authorizes such a pledge. The City is also authorized to issue revenue bonds to refund revenue bonds pursuant to ORS 287A.360 to 287A.375.

As described below, the City reserves the right to make certain amendments to the Master First Lien Bond Ordinance and the Master Second Lien Bond Declaration without the consent of the Owners of the 2014 Bonds. See “PROVISIONS OF THE 2014 BONDS – CONSENT OF OWNERS OF 2014 BONDS TO FUTURE AMENDMENTS” below.

RATE COVENANTS

First Lien Bond Rate Covenant

The City covenants for the benefit of the owners of the First Lien Bonds, including the 2014 Series A Bonds, that it will authorize, bill and collect fees and charges for the use of the Sewer System and operate the Sewer System so as to produce Gross Revenues in such amounts that, after the funding of Operating Expenses for each fiscal year in amounts sufficient to allow the City to be in compliance with its covenants, standards and requirements relating to the operation and maintenance of the Sewer System, at least meet the following requirements:

- Net Revenues (without adjustment for payments to or withdrawals from the Rate Stabilization Fund) in each fiscal year are projected to be at least equal to the sum of all payments due under any Reserve Equivalent, plus all debt service due on outstanding First Lien Bonds (including the proposed 2014 Series A Bonds) in that fiscal year; and
- Net Revenues (after adjustments for payments to and withdrawals from the Rate Stabilization Fund) in each fiscal year are projected to be at least equal to the sum of all payments due under any Reserve Equivalent, plus 1.20 times the debt service due on all outstanding First Lien Bonds (including the proposed 2014 Series A Bonds) in that fiscal year. See “RATE STABLIZATION FUND” below.

If Net Revenues in a fiscal year are insufficient to meet the requirements of the Rate Covenant, the City has covenanted with the owners of the 2014 Series A Bonds to increase its fees such that the Net Revenues are projected to meet the required level. See also “PROVISIONS OF THE 2014 BONDS – CONSENT OF OWNERS OF 2014 BONDS TO FUTURE AMENDMENTS” below.

Second Lien Bond Rate Covenant

The City covenants for the benefit of the Owners of the Second Lien Bonds, including the 2014 Series B Bonds, that it will establish and maintain rates and charges in connection with the operation of the Sewer System which are sufficient to permit the City to pay all Operating Expenses and all lawful charges against the Net Revenues, to make all transfers required by the Master Second Lien Bond Declaration to the Second Lien Bond Account, the Second Lien Bond Reserve Account and the Subordinate Obligations Account, and to pay any franchise fees or similar charges imposed by the City on the Sewer System or its operations.

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

- (1) that it shall charge rates and fees in connection with the operation of the Sewer System which, when combined with other Gross Revenues, but without regard to transfers from and to the Rate Stabilization Fund, are adequate to generate Net Revenues each Fiscal Year at least equal to one hundred percent (100.00%) of the Combined Annual Debt Service.
- (2) that it shall charge rates and fees in connection with the operation of the Sewer System which, when combined with other Gross Revenues, are adequate to generate Net Revenues each Fiscal Year at least equal to one hundred ten percent (110.00%) of Combined Annual Debt Service due in that Fiscal Year.

“Combined Annual Debt Service” is defined as the sum of: (a) the amount of any required transfers to the First Lien Bond Reserve Account, (b) the amount of principal of and interest on First Lien Bonds required to be paid in that Fiscal Year, (c) the amount of any required transfers to the Second Lien Bond Reserve Account, and (d) the amount of principal of and interest on all Outstanding Second Lien Bonds required to be paid in that Fiscal Year.

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

FUNDS AND ACCOUNTS

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

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

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

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

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

- **Subordinate Obligations Account.** Amounts in this account may be used to pay Subordinate Obligations, if any.

Additionally, the Rate Stabilization Fund is created by the Master First Lien Bond Ordinance. Net Revenues may be transferred to the Rate Stabilization Fund at the option of the City as permitted by the Master First Lien Bond Ordinance and the Master Second Lien Bond Declaration, and may be withdrawn at any time and used for any purpose for which the Gross Revenues may be used. (See “Rate Stabilization Fund” below.)

APPLICATION OF GROSS REVENUES

As long as any 2014 Bonds remain issued and outstanding, the Master First Lien Bond Ordinance and the Master Second Lien Bond Declaration provide that Gross Revenues shall be used solely to pay the following amounts in the following order of priority:

1. To pay Operating Expenses of the Sewer System which are then due (other than payments to the Rate Stabilization Fund) and any rebate of earnings on nonpurpose obligations in which the gross proceeds of First Lien Bonds are invested which is required to be paid under Section 148(f) of the Internal Revenue Code of 1986, as amended.
2. To make payments to the First Lien Bond Debt Service Account in an amount sufficient to make timely payment of all First Lien Bond principal and interest when due.
3. To make any payment required in connection with an insurance policy, surety bond or letter of credit in which the provider agrees unconditionally to provide the City with funds for the payment of debt service on First Lien Bonds (a “First Lien Bond Reserve Equivalent”);;
4. To make payments to replenish the First Lien Bond Reserve Account in accordance with the schedule specified in the Master First Lien Bond Ordinance. The Master First Lien Bond Ordinance currently requires the City to replenish deficiencies in the First Lien Bond Reserve Account over a period of twelve months by making twelve substantially equal deposits to the First Lien Bond Reserve Account.
5. To make payments to the Second Lien Bond Account in an amount sufficient (with amounts available in the Second Lien Bond Account) to pay in full all Second Lien Bond principal, interest and premium, if any, which is due as required by the Master Second Lien Bond Declaration.
6. If the City has elected to fund the initial deposit to a subaccount in the Second Lien Bond Reserve Account in installments, to make the installment deposits to the Second Lien Bond Reserve Account. Section 3.3.K of the Master Second Lien Bond Declaration allows the City to elect to fund the initial deposit to a subaccount in the Second Lien Bond Reserve Account in up to five annual installments.
7. On the first day of each month following a Valuation Date on which the balance in the Second Lien Bond Reserve Account is determined to be less than the Second Lien Bond Reserve Requirement, to make required transfers to the Second Lien Bond Reserve Account to replenish the balance in the Second Lien Bond Reserve Account. See APPENDIX B, “PROVISIONS OF THE MASTER SECOND LIEN SEWER SYSTEM REVENUE BOND DECLARATION THAT APPLY TO ALL SECOND LIEN BONDS”, Sections 3.3.C and 3.3.D.
8. To pay any rebates or penalties for Second Lien Bonds when due to be paid to the United States pursuant to Section 148 of the Code.
9. On the dates specified in any proceedings authorizing Subordinate Obligations, if any, the City shall transfer to the Subordinate Obligations Account the Net Revenues required by those proceedings.
10. After all transfers and payments having a higher priority under this Section have been made, Net Revenues shall be applied to any franchise fees and similar charges imposed by the City on the Sewer System or its operations.
11. On any date, the City may transfer Net Revenues to the Rate Stabilization Fund or spend Net Revenues for any other lawful purpose, but only if all deposits and payments having a higher priority under this Section have been made.

RATE STABILIZATION FUND

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

FIRST LIEN BOND RESERVE ACCOUNT

Overview

All First Lien Bonds, including the 2014 Series A Bonds, are additionally secured by a pooled reserve account (the “First Lien Bond Reserve Account”). The Master First Lien Bond Ordinance requires the City to fund and maintain a balance in the First Lien Bond Reserve Account (but solely from the proceeds of First Lien Bonds and the Net Revenues) that is at least equal to the Required Reserve. The Master First Lien Bond Ordinance defines the Required Reserve as the lesser of the maximum annual debt service on all Outstanding Parity Obligations determined as of the date of issuance of any additional Parity Obligations, 125 percent of the average annual debt service on the Outstanding Parity Obligations, or ten percent of the proceeds of all series of sewer system revenue bonds any portion of which is outstanding. If the balance in the Reserve Account falls below the Required Reserve, the City pledges that the balance will be replenished from Net Revenues in proportionate monthly payments so that the Required Reserve is reestablished within twelve months from the date of any deficiency. See Appendix A and the definition of “Required Reserve.”

Reserve Equivalents

The City may fund the First Lien Bond Reserve Account with cash, investments, or “Reserve Equivalents.” The Master First Lien Bond Ordinance defines “Reserve Equivalent” as “an insurance policy, surety bond or letter of credit issued by a municipal bond insurance company or a commercial bank having a credit rating (when the policy, bond, or letter of credit is issued) of at least Aa or AA as determined by Moody’s Investors Services or Standard & Poor’s Corporation, or their successors, in which the insurance company or commercial bank agrees unconditionally to provide the City with funds for the payment of debt service...” on First Lien Bonds.

Reserve Equivalents for the 2014 Series A Bonds

The City has applied to Assured Guaranty Municipal Corp. (“AGM”) to issue a municipal bond debt service reserve insurance policy for the purpose of funding the portion of the Required Reserve for the First Lien Bonds allocable to the 2014 Series A Bonds (the “2014 Series A Reserve Equivalent”) effective as of the date of issuance of the 2014 Series A Bonds. The 2014 Series A Reserve Equivalent is a Reserve Equivalent as defined in the Master First Lien Bond Ordinance, is issued in the face amount of \$11,641,700, and the premium therefor will be fully paid by the City at the time of delivery of the 2014 Series A Bonds. See Section 12 of Appendix C for information regarding draws and application of the draws under the 2014 Series A Reserve Equivalent.

Reserve Equivalents and the First Lien Bond Reserve Account

The First Lien Bond Reserve Account is fully funded with First Lien Bond Reserve Equivalents and contains no cash and investments, as shown in the table below. As of October 1, 2014, the date of the final payment of the remaining 2004 Series A Bonds, the First Lien Bond Required Reserve is approximately \$66.2 million and the balance in the First Lien Bond Reserve Account, which is the aggregate face amount of First Lien Bond Reserve Equivalents, is approximately \$87.1million.

**Table 4
CITY OF PORTLAND, OREGON
First Lien Bond Reserve Account (1)**

Series of Bonds Secured	Date of Issue	Maturity Date	Surety Provider	Required Reserve (4)	Surety Face Value	Ratings (5)
2004 Series B	11/30/04	06/01/17	AGM (2)	n/a	\$9,308,000	A2/AA
2005 Series A	06/16/05	08/01/20	AGM (2)	n/a	14,485,000	A2/AA
2006 Series A	05/25/06	06/15/31	NPFG (3)	n/a	12,230,744	A3/AA-
2007 Series A	03/08/07	06/01/15	NPFG (3)	n/a	21,137,600	A3/AA-
2008 Series A	04/17/08	06/15/33	AGM (2)	n/a	18,280,050	A2/AA
2014 Series A (6)	08/14/14	10/01/24	AGM	n/a	11,641,700	A2/AA
Total				\$66,150,816	\$87,083,094	

Notes:

- (1) As of October 1, 2014.
- (2) The City purchased Reserve Equivalents from Financial Security Assurance Inc. to fund the First Lien Required Reserve. In July 2009, Assured Guaranty acquired FSA and the surety bond provider for these bonds is now Assured Guaranty Municipal Corp. (“AGM”).
- (3) The City has purchased Reserve Equivalents from MBIA Insurance Corporation (“MBIA”) to fund the First Lien Required Reserve. Since the date of issue, MBIA has been restructured. The surety provider for these bonds is now National Public Finance Guarantee Corporation (“NPFG”).
- (4) The First Lien Bonds are secured by a pooled reserve account.
- (5) Ratings for surety providers are from Moody’s Investors Service and Standard and Poor’s, respectively.
- (6) The City has refunded the 2015-2024 maturities of the 2004 Series A Bonds with proceeds of the 2014 Series A Bonds. On the closing date of the 2014 Series A Bonds, the City purchased a Reserve Equivalent for the 2014 Series A Bonds. The Reserve Equivalent for the 2004 Series A Bonds will expire once the remaining maturity of the 2004 Series A Bonds is paid on October 1, 2014.

Source: City of Portland.

The Master First Lien Bond Ordinance provides that the First Lien Bond Reserve Account is deemed to contain the amount available to be paid under First Lien Bond Reserve Equivalents. The City currently expects that it could draw the full face amount under all First Lien Bond Reserve Equivalents shown in Table 4.

Amendments

In the 2014 First Lien Bond Declaration, the City reserves the right to amend the Master First Lien Bond Ordinance to make clarifications and amendments relating to the First Lien Bond Reserve Account and Reserve Equivalents. Those amendments include amendments providing that the City is not obligated to replenish Reserve Equivalents when the Net Revenues are at least 150% of the debt service on all outstanding First Lien Bonds that is due in that fiscal year, amendments permitting the City to replenish Reserve Equivalents that are downgraded below investment grade over five years when the Net Revenues are less than 150% of the debt service on all outstanding First Lien Bonds that is due in that fiscal year, and amendments permitting the City to issue additional Parity First Lien Obligations when the balance of the Reserve Account or a subaccount in the Reserve Account is below the applicable Required Reserve so long as all required deposits to replenish the First Lien Bond Reserve Account have been made. See APPENDIX C, “2014 First Lien Bond Declaration,” Section 13, and “– CONSENT OF OWNERS OF 2014 BONDS TO FUTURE AMENDMENTS— Proposed Amendments to Master First Lien Bond Ordinance” below.

SECOND LIEN BOND RESERVE ACCOUNT

The 2014 Series B Reserve Subaccount

Funding

Each Series of Second Lien Bonds, including the 2014 Series B Bonds, is additionally secured by amounts credited to a subaccount in the Second Lien Bond Reserve Account. Amounts credited to the subaccount established for the 2014 Series B Bonds (the “2014 Series B Reserve Subaccount”) are not available to pay other Series of Second Lien Bonds, and amounts credited to other subaccounts

in the Second Lien Bond Reserve Account are not available to pay the 2014 Series B Bonds. The Master Second Lien Bond Declaration requires the City to fund and maintain a balance in the 2014 Series B Reserve Subaccount (but solely from the proceeds of the 2014 Series B Bonds and the Net Revenues) that is at least equal to the lesser of the greatest amount of principal, interest and premium, if any, required to be paid in any Fiscal Year on the 2014 Series B Bonds, 125% of average annual debt service on the 2014 Series B Bonds, or ten percent of the proceeds of the 2014 Series B Bonds. The Master Second Lien Bond Declaration permits the City to fund the contribution to the 2014 Series B Reserve Subaccount over a five-year period, but the City will fund the contribution for 2014 Series B Bonds in full on the date of closing with bond proceeds. (See APPENDIX B and the definition of “Second Lien Bond Reserve Requirement.”) The City expects to fund the 2014 Series B Reserve Subaccount with proceeds of the 2014 Series B Bonds at closing.

Reduction of Amount and Other Changes to the 2014 Series B Reserve Subaccount

The purchasers of the 2014 Series B Bonds are consenting to future amendments to the Master Second Lien Bond Declaration that allow the City to (a) establish subaccounts in the Second Lien Bond Reserve Account that secure multiple Series of Second Lien Bonds; (b) determine the reserve requirement for subaccounts in the Second Lien Bond Reserve Account; and, (c) combine subaccounts in the Second Lien Bond Reserve Account. See “—CONSENT OF OWNERS OF 2014 BONDS TO FUTURE AMENDMENTS” below.

If the City makes any of these amendments it may make corresponding changes to the 2014 Series B Reserve Subaccount, and (i) use the 2014 Series B Reserve Subaccount to secure multiple Series of Second Lien Bonds; (ii) establish a new, lower reserve requirement for the 2014 Series B Reserve Subaccount, or (iii) combine the 2014 Series B Reserve Subaccount with other subaccounts in the Second Lien Bond Reserve Account.

If the City makes any of these changes it will not reduce the reserve requirement for the 2014 Series B Reserve Subaccount, or any subaccount into which that subaccount is combined, below the “2014 Series B Reserve Subaccount Requirement” as defined in Section 4.6.B of the 2014 Second Lien Supplemental Bond Declaration. The 2014 Series B Reserve Subaccount Requirement is defined as one half of the greatest amount of principal, interest and premium, if any, required to be paid in any Fiscal Year on all Second Lien Bonds that are secured by the 2014 Series B Reserve Subaccount, unless the amount required to be added to that subaccount for a Series exceeds the Tax Maximum for that Series. See APPENDIX D, “2014 SECOND LIEN SUPPLEMENTAL BOND DECLARATION.”

Use of Reserve Credit Facilities

The City may fund the 2014 Series B Reserve Subaccount with cash, investments, or “Reserve Credit Facilities.” The Master Second Lien Bond Declaration 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 Second Lien Bond Reserve Requirement, under which the Credit Provider agrees to unconditionally provide the City with funds to transfer to the Second Lien Bond Reserve Account if amounts are required to be withdrawn from that account for deposit in the Second Lien Bond Account. The Master Second Lien Bond Declaration 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 Second Lien Bonds, and which is issued or provided by a Credit Provider whose long-term debt obligations or claims-paying ability (as appropriate) are rated one of the two highest rating categories by a Rating Agency which rated the Second Lien Bonds secured by the Credit Facility.” The City is not required, nor does it intend, to replace any surety bond if, subsequent to its purchase, the rating of the provider of such surety bond falls below a Aa3 or AA- by Moody’s or Standard & Poor’s, respectively.

Amendments

In the 2014 Second Lien Supplemental Bond Declaration, the City reserves the right to amend the Master Second Lien Bond Declaration to make clarifications and amendments relating to the Second Lien Bond Reserve Account and Reserve Credit Facilities. Those amendments include amendments providing that the City is not obligated to replenish Reserve Credit Facilities when the Net Revenues are at least 130% of Combined Annual Debt Service, amendments permitting the City to replenish Reserve Credit Facilities that are downgraded below investment grade over five years when the Net Revenues are less than 130% of Combined Annual Debt Service, and amendments permitting the City to issue additional Second Lien Bonds when the balance of any subaccount is below the applicable Reserve Requirement so long as all required deposits to replenish the Second Lien Bond Reserve Account have been made. See APPENDIX D, “2014 SECOND LIEN SUPPLEMENTAL BOND DECLARATION,” Section 9, and “— CONSENT OF OWNERS OF 2014 BONDS TO FUTURE AMENDMENTS—Proposed Amendments to Master Second Lien Bond Declaration” below.

Summary of All Subaccounts of the Second Lien Bond Reserve Account

As described above, the Second Lien Bond Reserve Account consists of subaccounts that secure different Series of Second Lien Bonds. All of the subaccounts are fully funded. The subaccounts in the Second Lien Bond Reserve Account for the 2006 Series B Bonds and the 2008 Series B Bonds currently contain the Reserve Credit Facilities shown in the following table. The subaccounts in the Second Lien Bond Reserve Account for the 2010 Series A Bonds, the 2013 Series A Bonds, and the 2014 Series B Bonds contain cash or investments.

**Table 5
CITY OF PORTLAND, OREGON
Funding of Second Lien Bond Reserve Subaccounts (1)**

Series of Bonds Secured	Date of Issue	Maturity Date	Surety Provider/Cash	Reserve Requirement	Surety Face Value/Cash	Ratings (4)
2006 Series B	05/25/2006	06/15/2031	NPFG (2)	\$6,118,475	\$6,118,475	A3/AA-
2008 Series B	04/17/2008	06/15/2033	AGM (3)	17,028,836	17,028,836	A2/AA
2010 Series A	08/19/2010	03/01/2035	Cash	27,870,500	27,870,500	N/A
2013 Series A	09/17/2013	08/01/2038	Cash	17,905,146	17,905,146	N/A
2014 Series B	08/14/2014	10/01/2039	Cash	13,073,050	13,073,050	N/A
Total				\$81,996,007	\$81,996,007	

Notes:

- (1) As of the delivery date of the 2014 Series B Bonds.
- (2) The City purchased Reserve Credit Facilities from Financial Security Assurance Inc. to fund the Second Lien Bond Reserve Requirement for the 2006 Series B Bonds. In July 2009, Assured Guaranty acquired FSA and the surety bond provider for these bonds is now Assured Guaranty Municipal Corp. (“AGM”)
- (3) The City has purchased a Reserve Credit Facility from MBIA Insurance Corporation (“MBIA”) to fund the Second Lien Bond Reserve Requirement for the 2008 Series B Bonds. Since the date of issue, MBIA has been restructured. The surety provider for these bonds is now National Public Finance Guarantee Corporation (“NPFG”).
- (4) Ratings for surety providers are from Moody’s Investors Service and Standard and Poor’s, respectively.

Source: City of Portland.

The Master Second Lien Bond Declaration provides that each subaccount in the Second Lien Bond Reserve Account is deemed to contain the amount available to be paid under all Reserve Equivalents that are credited to that subaccount. The City currently believes that the amount available to be paid under each Reserve Equivalent shown in Table 5 is equal to its full face amount.

ADDITIONAL FIRST LIEN PARITY OBLIGATIONS

The Master First Lien Bond Ordinance permits the City to issue additional Parity Obligations to provide funds for any purpose relating to the Sewer System which is authorized by law, including, but not limited to, financing the construction of new wastewater facilities, repairing and improving existing wastewater facilities, or refunding outstanding bonds. All additional Parity Obligations issued in accordance with the terms and conditions of the Master First Lien Bond Ordinance will be secured by a first lien on, and will be payable out of, the Net Revenues of the System on an equal and ratable (parity) basis with the 2014 Series A Bonds and the Outstanding Parity Obligations heretofore issued.

The City may issue Parity Obligations to refund Outstanding Parity Obligations without delivering the certificate described in the next paragraph, or meeting certain other general requirements for the issuance of additional Parity Obligations, if the debt service on the Parity Obligations does not exceed the debt service on the refunded Parity Obligations in any year by more than \$5,000. The City expects to meet this test. Otherwise, the Master First Lien Bond Ordinance imposes the following conditions, among others, that must be met prior to the issuance of any additional Parity Obligations.

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

1. the Net Revenues (without regard to payments to or withdrawals from the Rate Stabilization Fund) for 12 consecutive months during the 18 months preceding the issuance of the proposed Parity Obligations are not less than 1.00 times maximum annual debt service on all Outstanding First Lien Bonds and the proposed Parity Obligations; and
2. the Net Revenues, as projected for each of the next ensuing three fiscal years (including any planned rate increases which may be considered under the provisions of Section 1.L of the Master First Lien Bond Ordinance) are not less than 1.20 times the sum of: Actual Debt Service on all Outstanding First Lien Bonds in each respective fiscal year; plus, average annual debt service on the proposed Parity Obligations.

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

ADDITIONAL SECOND LIEN PARITY OBLIGATIONS

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

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

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

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

The City may issue Parity Second Lien Obligations to refund Outstanding Second Lien Bonds or First Lien Bonds without complying with the foregoing requirements if the refunded Second Lien Bonds or First Lien Bonds are defeased on the date of delivery of the

refunding Parity Second Lien Obligations and if the Combined Annual Debt Service on the refunding Parity Second Lien Obligations does not exceed the Combined Annual Debt Service on the refunded Second Lien Bonds or First Lien Bonds (calculated as if the refunded First Lien Bonds were Second Lien Bonds) in any Fiscal Year by more than \$5,000.

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

SUBORDINATE OBLIGATIONS

The City may issue Subordinate Obligations only if the Subordinate Obligations are payable solely from amounts permitted to be deposited in the Subordinate Obligations Account, and the Subordinate Obligations state clearly that they are secured by a lien on or pledge of the Net Revenues which is subordinate to the lien on, and pledge of, the Net Revenues for the First Lien Bonds and the Second Lien Bonds. The Bureau has issued Subordinate Obligations that are outstanding in the amount of \$17,554,815 as of the closing date of the 2014 Bonds. Of this amount, \$17,356,054 of the outstanding Subordinate Obligations are loans offered through the DEQ's Clean Water State Revolving Fund Loan Program (the "SRF Loans"). Each of the City's SRF Loans have a level debt service schedule with a twenty year repayment period. Loans are subject to acceleration in the event of a default. As of the closing date of the 2014 Bonds, the final maturity of the City's SRF Loans is February 1, 2031. The Bureau also has a loan originally through the Oregon Economic Development Department for the Brookside Wetlands project which is outstanding in the amount of \$198,761. The loan has a 20-year repayment schedule, with a final maturity date of December 1, 2017. This loan is also subject to acceleration in the event of a default.

OTHER COVENANTS

The City covenants that it will:

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

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

CONSENT OF OWNERS OF 2014 BONDS TO FUTURE AMENDMENTS

Proposed Amendments to Master First Lien Bond Ordinance

The 2014 First Lien Bond Declaration provides that the City reserves the right to amend the Master First Lien Bond Ordinance without subsequently seeking the consent of the Owners of the 2014 Series A Bonds, including provisions designed:

- To facilitate the issuance of additional First Lien Bonds as Build America Bonds or similar obligations that are eligible for federal interest subsidies;
- To permit the creation of separate subaccounts in the Reserve Account to secure one or more Series of First Lien Bonds and to determine the Required Reserve for those subaccounts;
- To clarify the ratings requirement for a Reserve Equivalent, its valuation and options for replenishment if the ratings of a Reserve Equivalent are either withdrawn or fall below investment grade.
- To allow the City to determine whether it has complied with the rate covenants for First Lien Bonds for each fiscal year not later than sixty (60) days after the beginning of the subsequent Fiscal Year and stating actions to be taken by the City such that failure to comply with the rate covenant does not constitute a Default; and
- To conform definitions and provisions in the Master First Lien Bond Ordinance to those contained in the Master Second Lien Bond Declaration if, in the judgment of the City Council, these amendments do not materially and adversely affect the interest of First Lien Bond owners.

See “2014 FIRST LIEN BOND DECLARATION – Section 13” attached hereto as APPENDIX C for the proposed amendments. By purchasing the 2014 Series A Bonds, the Owners of the 2014 Series A Bonds are deemed to have consented to these proposed amendments.

Proposed Amendments to Second Lien Bond Ordinance

The 2014 Second Lien Supplemental Bond Declaration provides that the City reserves the right to amend the Second Lien Bond Ordinance without subsequently seeking the consent of the Owners of the 2014 Series B Bonds, including provisions designed:

- To facilitate the issuance of additional Second Lien Bonds as Build America Bonds or similar obligations that are eligible for federal interest subsidies;
- To permit separate subaccounts in the Second Lien Bond Reserve Account to secure multiple Series of Second Lien Bonds, to combine subaccounts in the Second Lien Bond Reserve Account, and to determine the Required Reserve for those subaccounts; and
- To clarify the ratings requirement for a Reserve Credit Facility, its valuation and options for replenishment if the ratings of a Reserve Credit Facility are either withdrawn or fall below investment grade.
- To achieve consent to amendments to the Master First Lien Bond Ordinance of the type described in Section 13 of the 2014 First Lien Bond Declaration.

See “2014 SECOND LIEN SUPPLEMENTAL BOND DECLARATION – Section 9” attached hereto as APPENDIX D for the proposed amendments. By purchasing the 2014 Series B Bonds, the Owners of the 2014 Series B Bonds are deemed to have consented to these proposed amendments.

THE SEWER SYSTEM

The City owns, operates and maintains the sanitary and stormwater collection, transportation, and treatment systems within its boundaries. The service area is located on both sides of the Willamette River, extending approximately 20 miles south of its confluence with the Columbia River. It is generally bounded on the west by low-lying hills paralleling the Willamette River, by other service areas serving the City metropolitan area to the south, by the City of Gresham to the east, and by the Columbia River to the north. The City provides sanitary sewer service to approximately 592,000 people, numerous commercial and industrial facilities, and several wholesale contract customers located adjacent to the City. The following table provides an overview of the Sewer System characteristics:

Table 6
CITY OF PORTLAND, OREGON
Sewer System Characteristics

Service Area (acres)	
In City	96,000
Outside City (wholesale)	9,000
Population Served	592,000
Piping in Sewer System (miles)	2,330
Pumping Stations	97
Treatment Capacity (millions of gallons per day)	108.3

Source: Bureau of Environmental Services.

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

SANITARY AND STORM COLLECTION SYSTEM

Collection sewers transport wastewater from the receiving point (laterals at the curb line) to the point of discharge into the interceptor sewers. Collection sewers comprise most of the footage and economic value of the Sewer System, fronting on most of the property in the City. Older collection sewers carry both storm and sanitary sewage and comprise approximately 880 miles (or about 37 percent) of the system. Collection sewers constructed since 1960 carry sanitary wastes only. The collection system is inspected through the use of closed-circuit TV cameras and cleaned on a routine basis. Sewer System maintenance and repair projects are scheduled according to the results of the inspection program.

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

The basins in North and Northeast Portland typically drain to the Columbia and Willamette Rivers. Some of these basins have highly permeable soils. Stormwater in these locations drains to Underground Injection Controls ("UICs") or ponds on the surface and slowly percolates through the ground to underlying soils. UICs are referred to as drains or sumps. Most of the storm runoff in Southeast Portland drains to the Johnson Creek basin, which covers an area of approximately 54 square miles. The Johnson Creek basin is the largest basin in the City's Urban Services Boundary.

INTERCEPTOR AND PUMP STATION SYSTEM

Large interceptor sewers, generally paralleling the Willamette River on the east and west, and extending along the south side of the Columbia Slough, are the major sewage-carrying conduits in the Sewer System. Sewer diversions are located at the intersections of combined trunk sewers and interceptor sewers. These diversions were designed with the capacity to direct approximately three times the average dry weather combined sewer flow into the interceptor system. During rainfall, when combined sewage flow exceeds three

times the average dry weather flow, a portion of the sewage flow bypasses the diversion structures and discharges to the Columbia Slough Consolidation Conduit (in the Columbia Slough Watershed) or to the Willamette Combined Sewage Overflow (“CSO”) Tunnels. In response to the Clean Water Act of 1972 (as amended in 2000), the West Side and East Side CSO facilities were built to substantially reduce combined sewage flow discharges. The Clean Water Act requires all facilities that discharge to Waters of the United States through a pipe to get a National Pollutant Discharge Elimination (“NPDES”) permit. (See “REGULATORY ENVIRONMENT—BUREAU PERMITS—Wastewater Treatment System Permits”).

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

SEWAGE TREATMENT PLANTS

The City’s two sewage treatment plants, the CBWTP and the Tryon Creek Wastewater Treatment Plant (“TCWTP”), are both activated sludge, secondary treatment plants with capacities to treat a minimum of 100 million gallons per day (“mgd”) and 8.3 mgd, respectively, through the secondary treatment system. Dry weather sewage flows to the wastewater treatment facilities receive primary and secondary treatment. Dry weather flows for 2013 equaled 64 mgd at the CBWTP and 4.4 mgd at the TCWTP. Annual average daily flows to both treatment facilities were 69 mgd in 2013 or 64 percent of secondary treatment capacity. Over the past five calendar years (2009 through 2013), average flows were 78 mgd or 72 percent of secondary treatment capacity. Peak secondary treatment capacities at the CBWTP and the TCWTP are 120 mgd and 20 mgd, respectively. Wet weather flows in excess of this amount up to 450 mgd at CBWTP and 32 mgd at TCWTP receive primary treatment and are blended with secondary effluent prior to disinfection and discharge. Enhancements to the CBWTP secondary treatment system are currently under construction and will be completed by the end of 2014. These enhancements are in the current Capital Improvement Program (“CIP”) and will increase the ability to treat more wet weather flows through the secondary system.

Past projects at the CBWTP have focused on enhancing the plant’s peak wet weather treatment capacity. Additional capacity expansion was completed as of December 2012 to treat increased flows from the CSO control facilities. The West Side CSO facilities were fully operational on December 1, 2006. The East Side CSO facilities were fully operational in December 2011. Peak wet weather flows to the CBWTP increased by 60 mgd and 115 mgd for the West Side CSO facilities and East Side CSO facilities, respectively.

The City’s biosolids recycling program meets U.S. Environmental Protection Agency (“EPA”) and Oregon Department of Environmental Quality (“DEQ”) regulations. The City routinely monitors biosolids quality and land application practices and impacts to demonstrate both regulatory compliance and the benefits resulting from solids recycling. Two new biosolids digesters were completed in October 2011 at CBWTP to process the increased solids loading. Biosolids land application at Madison Farm in north central Oregon has been the major focus of the City’s biosolids management program since 1990.

The City manages industrial discharges to the sanitary Sewer System in order to protect the Publicly Owned Treatment Works (“POTW”), protect the sewage and collection systems, protect the health and safety of the POTW workers, prevent POTW interference and pass through, prevent non-compliance of the City’s NPDES permits, and protect the receiving waters. There are currently 155 industries operating under City discharge permits, and compliance files are maintained on approximately 500 industrial users. Periodically, through its ongoing monitoring program, the City may detect discharges to the System that exceed established standards. In these cases, the City initiates a process of notification and enforcement requiring the industry to regain compliance. Lack of compliance by the offending industry can lead to imposition of fines or ultimately to the termination of the industry’s sewer service. The City Code also allows recovery of any damages to the Sewer System that result from impermissible discharges. Ninety-nine percent of samples collected from permitted industries are in compliance.

REGULATORY ENVIRONMENT

OVERVIEW

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

BUREAU PERMITS

Wastewater Treatment System Permits

The Clean Water Act (“CWA”) requires all facilities that discharge to Waters of the United States through a pipe to get a NPDES permit. The Bureau has a NPDES permit for both the CBWTP and the TCWTP. These permits set waste discharge limits, minimum monitoring and reporting requirements, and deadlines for specific actions to be taken by the Bureau; require an industrial pretreatment program; and specify penalties for noncompliance. The CBWTP permit was issued in July 2011 and will expire in 2016. The TCWTP permit was issued in October 2004 and was administratively extended in 2009. The TCWTP permit has not been renewed due to the backlog of permit applications at the DEQ. Because the Bureau applied for a new permit in a timely manner, the expired TCWTP permit remains in force until final action is taken on the application per Oregon Administrative Rule 340-045-0040.

Several ongoing and completed actions influence the permitting process. These include the completion of the CSO Control Program, ongoing legal action concerning the Willamette River Total Maximum Daily Load (“TMDL”) for temperature, and the DEQ’s new Revised Human Health Water Quality Criteria and Aquatic Life Criteria for Toxics.

Section 303 (d) of the CWA requires states every two years to identify those waters “for which existing required pollution controls are not stringent enough to achieve that state’s water quality standards,” and to develop that a TMDL. A TMDL is the calculated amount of pollutant a water body can receive and still meet State of Oregon (“State”) water quality standards. The DEQ finalized the Willamette Basin TMDL (including mainstem and tributaries) in 2006 after extensive study. TMDLs were developed for temperature, bacteria, and mercury because State water quality standards for these pollutants are often exceeded. In *Northwest Environmental Advocates (“NEA”) v. U.S. Environmental Protection Agency (“EPA”)*, on February 28, 2012, the U.S. District Court of Oregon invalidated the EPA’s decision to approve some of Oregon’s water quality standards with implications for nonpoint sources of pollution from farming, forestry, grazing, and related practices. The court also invalidated the EPA’s decision to approve Oregon’s Natural Conditions Criteria for temperature to protect fish. A follow-up lawsuit, filed in 2012, challenges the temperature TMDLs themselves. However, the TCWTP average temperature discharges are lower than the TMDL limits and the permit renewal is expected prior to the resolution of this lawsuit. Consequently, no impact on the TCWTP permit is anticipated. Also, since the CBWTP discharges to the Columbia River, this lawsuit would not affect the CBWTP permit.

The DEQ is responsible for establishing water quality criteria for toxic pollutants to protect both aquatic life and human health. These criteria are established to protect surface water for aquatic life and to allow Oregonians to consume fish and shellfish and to use State waters for drinking water supply without adverse health effects. The DEQ develops its water quality criteria based on EPA recommended criteria. Following an extensive review of the human health toxics criteria, the EPA approved revised criteria to protect human health on October 17, 2011. The new human health toxics criteria are now effective under state and federal law for CWA programs. The DEQ is also revising aquatic life standards, most of which were approved by EPA in 2013 and 2014. A rulemaking process is expected to begin for two of the remaining toxic compounds (aluminum, ammonia, copper, and cadmium) during 2014. Bureau staff have been preparing to test for the regulated pollutants at the new, lower concentrations in preparation for new requirements when the permits are renewed, and are following the DEQ process for instituting standards for the four remaining compounds.

The CBWTP also has Air Contaminant Discharge, Construction Stormwater, and Industrial Stormwater Discharge permits. Changes and upgrades to the CBWTP and collection system have been made over the years and will continue to be made as regulations evolve.

NPDES Municipal Separate Storm Sewer System (“MS4”) Permit

An NPDES permit for a municipal separate storm sewer system is referred to as an MS4 permit. The City’s five-year NPDES stormwater permit requires that the City and its co-permittee, the Port of Portland, implement stormwater management programs to reduce pollutant discharges “to the maximum extent practicable” from their respective municipal stormwater systems. The permit was first issued in September 1995 and most recently renewed in January 2011. The MS4 permit incorporates the stormwater components of TMDL implementation through a requirement to develop “benchmarks” (defined as estimated future pollutant load reductions) for TMDL parameters with EPA-approved waste load allocations (“WLAs”). An evaluation of stormwater program effectiveness in making progress towards these benchmarks is also required. In addition, the 2011 permit includes a requirement to assess measures needed to attain TMDL WLAs. These evaluation requirements are anticipated to continue in the next permit term.

The stormwater management program will impact operating programs as well as the capital program. Currently identified capital costs deemed necessary to comply with the NPDES stormwater permit are included within the Bureau’s Surface Water Management CIP. The operating costs of permit-related programs, distributed across bureaus and other City programs (for example, stormwater facility maintenance, street sweeping) exceeds \$500,000 per year and is expected to increase in future years. Capital cost impacts are approximately \$20 million over the FY 2014-15 through FY 2018-19 five-year forecast interval.

Underground Injection Control Water Pollution Control Facility Permit

The City’s Underground Injection Control (“UIC”) Water Pollution Control Facility permit was first issued on June 1, 2005. The permit establishes construction, operation and maintenance requirements for UICs (sumps). It requires the City to develop and implement a UIC management plan to protect groundwater as a drinking water resource. The permit expires May 31, 2015.

The City currently owns and operates approximately 9,000 UICs that collect stormwater from public rights-of-way and discharge it to the subsurface. UICs are most prevalent in the eastern portion of the City, where subsurface soils support greater stormwater drainage and infiltration rates. For many areas east of the Willamette River, UICs are the only form of stormwater disposal available. UICs are also an essential element of a comprehensive watershed strategy to use stormwater as a resource by infiltrating it back into the ground and preclude the need to install or increase the capacity of piped stormwater infrastructure that eventually discharges into local surface water bodies, including Johnson Creek, the Columbia Slough, and the Willamette River.

Although the UIC management plan has many stormwater management actions in common with the NPDES stormwater permit program, developing and implementing the new program has additional impacts on operating programs as well as the capital program. The Bureau’s operating costs of UIC permit implementation are approximately \$1.0 million in FY 2013-14, primarily for stormwater discharge monitoring, system inventory and management, program implementation and permit compliance. Implementation costs through the current permit term are expected to remain at similar levels. Additional costs are distributed across other City Bureaus and other City programs (e.g., UIC system assessment updates and system maintenance).

Currently identified capital costs, such as identifying and implementing corrective actions for non-compliant UICs, are included within the Surface Water Management CIP. Capital costs are estimated to be approximately \$1.2 million over the FY 2014-15 to FY 2018-19 forecast interval.

ENDANGERED SPECIES ACT REQUIREMENTS

For Pacific salmon, National Marine Fisheries Service (“NOAA Fisheries”) considers an Evolutionarily Significant Unit (“ESU”) a “species” under the Endangered Species Act (“ESA”). For Pacific steelhead, NOAA Fisheries has delineated Distinct Population Segments (“DPSs”) for consideration as “species” under the ESA.

An updated final listing for salmon and steelhead was issued on January 5, 2006 (71 FR 834). These include eight ESUs of salmon and five DPSs of steelhead that may use or migrate through watercourses in the Portland area. Twelve of the thirteen ESUs of salmon are listed as threatened; one is listed as endangered. The basic requirement of the ESA is to avoid harming or harassing the listed species or adversely modifying their critical habitat and to work to recover these species through the development and implementation of recovery plans.

In September 2005, NOAA Fisheries issued a final rule on the designation of critical habitat for the salmon ESUs and steelhead DPSs (50 CFR Part 226). The critical habitat designations require that City projects not “adversely affect” the designated areas unless adequate mitigation is conducted. In July 2013, the federal government adopted a salmon and steelhead recovery plan that encompasses Portland. The recovery plan includes many ongoing Bureau programs and activities including stream restoration, green infrastructure investments, land acquisition, and code improvements. There will be additional costs from new facilities and revised operating

procedures that will help address the water quality and habitat issues under the Bureau's charge such as stormwater and floodplain management. Going forward, funding for any capital projects or additional operating requirements will have to be budgeted as needs are identified.

PORTLAND HARBOR SEDIMENTS

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

The Portland Harbor Superfund investigation is currently focused on a stretch of the Willamette River from River Mile 2 to River Mile 12. The City is one of the potentially responsible parties funding and conducting an investigation of contaminated sediments, assessing cleanup options and planning for restoration in this section of the river. The City's potential liabilities are associated with stormwater discharges and with some City-owned upland properties. The City operates stormwater and CSO outfalls within the Portland Harbor area. The outfalls drain stormwater from City rights-of-way and from privately owned industrial, commercial, residential, and vacant lands. Stormwater can transport soil (dust, sediment, and debris) and contaminants such as metals, oil, grease, bacteria, and chemicals associated with upland activities to the river. The DEQ and the City are cooperating to assess whether discharges to the stormwater collection system are a significant source of sediment contamination. The City is working with the DEQ to identify and reduce sources of contamination that are conveyed to the Willamette River through the City's stormwater outfalls. Information on current and past land uses within the drainage basin of each outfall will be used to help identify potential upland sources of contaminants.

The City's involvement with the Superfund site, which includes the anticipated cost for management, technical and legal staffing, sediment investigation, investigation of the outfalls, assessment of source control measures, and early natural resource projects, is currently forecast to cost approximately \$15.7 million over the next five years. These costs are reflected in the Bureau's financial forecast. The EPA Record of Decision for the Superfund site is expected in 2017. The total costs associated with the cleanup and restoration activities and the City's ultimate share of those costs are unknown and the City cannot at this time predict the financial impact on the Sewer System. However, the City is taking a leading role in efforts to make the cleanup efficient and effective. The City is taking a proactive stance in cooperating with EPA's sediment assessment work and developing an outfall evaluation and source control plan in cooperation with the DEQ. Cleanup and restoration work will build upon the Bureau's implementation of the Portland Watershed Plan. The City is beginning to assess potential restoration activities with the Tribal Natural Resource Trustees, and is working with the U.S. Army Corps of Engineers on a comprehensive plan that could result in substantial funding for overall Lower Willamette natural resources restoration under the Water Resources Development Act. See "LITIGATION" herein.

THE BUREAU OF ENVIRONMENTAL SERVICES

BUREAU ORGANIZATION

The Bureau of Environmental Services (the “Bureau”) is headed by a director who reports to the Commissioner-in-Charge. See “THE INITIATIVE PROCESS—LOCAL INITIATIVES—Proposed Initiative to Amend City Charter” herein. The Bureau is responsible for the Sewer System’s operation, maintenance and capital construction. The Bureau is organized into six groups: the Office of the Director (i.e. Environmental Policy, Public Affairs, Portland Harbor, and Office of Healthy Working Rivers), the Business Services Group, the Wastewater Operations Group, the Watershed Services Group, the Engineering Services Group, and Pollution Prevention Services Group. At times, consultants are employed for specific projects, which require expertise or staffing beyond the Bureau’s capability. Certain administrative functions and Sewer System maintenance are provided by other City departments and bureaus on a reimbursable basis. The total budgeted staffing complement for the Bureau in FY 2013-14 stands at 520 full time equivalent employees (“FTEs”) distributed as follows:

- Office of the Director – 20 FTEs
- Business Services Group – 46 FTEs
- Wastewater Operations Group – 142 FTEs
- Watershed Services Group – 47 FTEs
- Engineering Services Group – 179 FTEs
- Pollution Prevention Services Group – 86 FTEs

Responsibility for overall management of the Sewer System and environmental policy planning resides in the Office of the Director. The organization chart in Figure 1 shows how the Bureau operations are assigned to the various groups.

Office of the Director

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

Business Services Group

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

Wastewater Group

The Wastewater Group is responsible for the operation, maintenance, monitoring and administration of the City's wastewater and stormwater collection and treatment facilities and related programs. These facilities include the CBWTP and TCWTP, 98 active pumping stations, the sanitary sewage and stormwater collection system, and a wide variety of stormwater detention and treatment facilities, and also the water quality ponds, UICs, and surface drainage systems.

Watershed Services Group

The Watershed Services Group leads implementation of the Portland Watershed Management Plan (“PWMP”), a comprehensive watershed management plan covering all five of the City’s urban watersheds. The PWMP provides for an integrated approach to improve watershed health, and to meet regulatory mandates. Watershed Services chairs three cross-bureau work groups to ensure that all City projects such as new streets, and programs such as land use zoning and City code updates, all contribute to improving watershed health. Other responsibilities include monitoring and evaluating the effectiveness of stormwater management practices, promoting and implementing sustainable site development projects and practices, developing new policies, interpreting and implementing state and federal surface and groundwater policies and regulations, and implementing projects to protect and restore watershed functions.

Engineering Services Group

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

Pollution Prevention Services Group

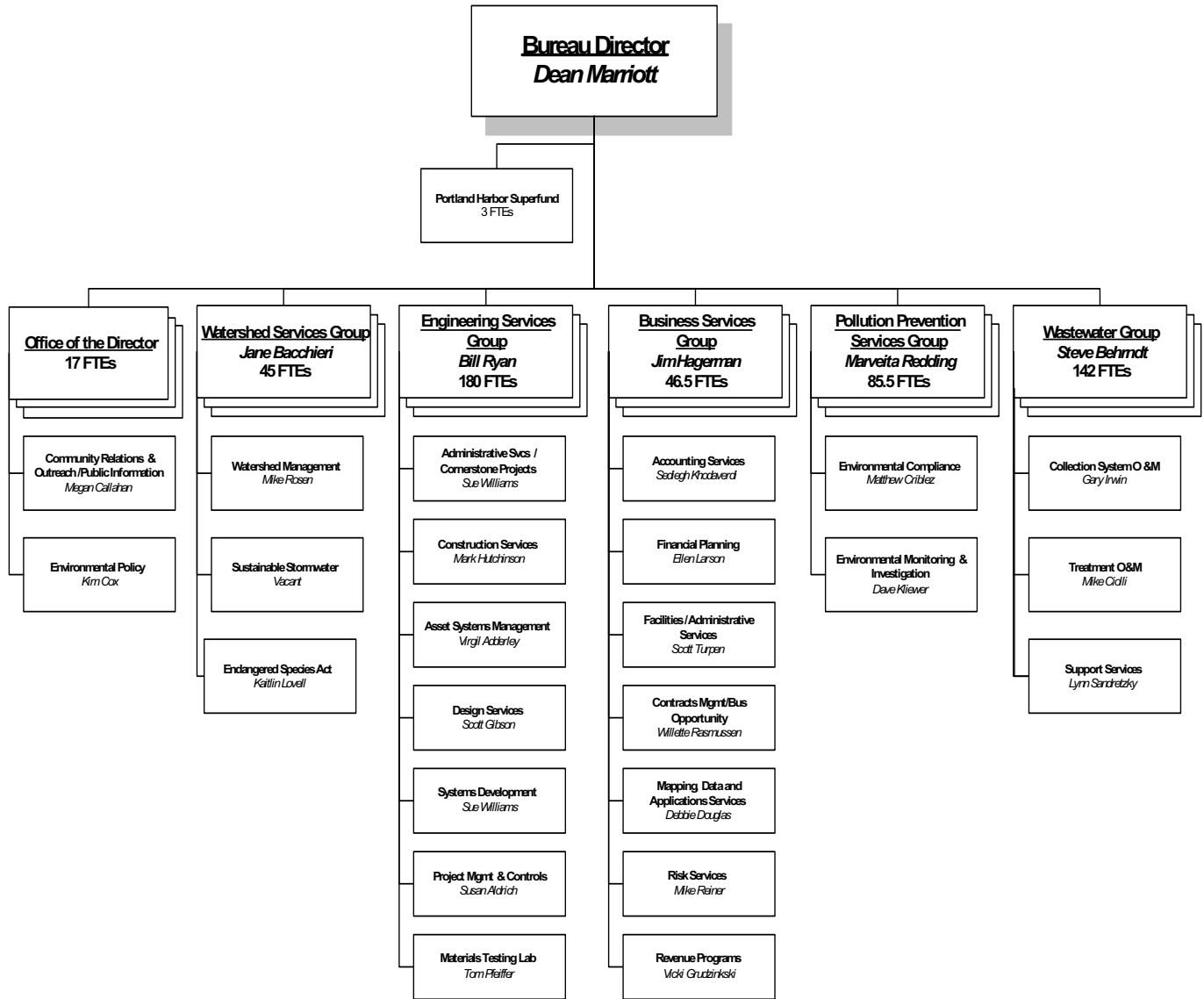
The Pollution Prevention Services Group has responsibility for the source control program, and provides environmental investigation and monitoring, environmental compliance, and enforcement support to other Bureau programs.

SERVICES PROVIDED BY OTHER CITY BUREAUS

Services provided to the Bureau by other City bureaus and offices fall into two major categories: overhead and direct. Overhead services include legal, purchasing, central accounting, personnel and payroll services, and are charged to the Bureau based on various workload indicators used to measure consumption of overhead services. The FY 2014-15 costs for overhead services are budgeted at \$3.9 million because of a one-year correction for prior over-charges. Overhead charges are forecast to increase to approximately \$6.2 million in FY 2015-16.

Direct services include fleet, printing, internal mail, telephone, electronic services, liability and workers' compensation insurance, and engineering related services such as survey and structural engineering services. Direct services are charged according to actual use. The most significant direct services in terms of budgeted expenditures are sewer maintenance, cleaning, and repair of sanitary and stormwater sewer systems, including the portion of street sweeping services that directly benefit the Sewer System, provided by the City's Bureau of Maintenance. The FY 2014-15 costs for direct services are currently budgeted at \$40.7 million for both operating and capital programs. Payments for direct services from other City bureaus are negotiated annually in Interagency Agreements. In the event of failure to reach a satisfactory agreement, the Bureau has the authority to modify these agreements by declining to purchase some of the services provided by other bureaus, by contracting with other suppliers for some services or by internalizing some services provided by other bureaus.

**Figure 1
CITY OF PORTLAND, OREGON
Bureau of Environmental Services
Organization Chart**



Source: City of Portland, Bureau of Environmental Services.

MANAGEMENT PERSONNEL

The following are brief biographies of key Sewer System personnel.

Nick Fish, Commissioner-in-Charge

Mr. Fish was elected to the City Council in 2008, re-elected to a four-year term in 2010 and re-elected again in 2014. Mr. Fish currently serves as Commissioner in Charge of the Portland Water Bureau and the Bureau of Environmental Services, and as Council liaison to Venture Portland, Elders in Action, and the Regional Arts and Culture Council. After graduating from Harvard, Mr. Fish worked as a legislative aid for Massachusetts Congressman Barney Frank. He received a law degree from Northeastern University in 1986, and spent ten years representing health care workers in New York.

Dean Marriott, Director, Bureau of Environmental Services

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

Jim Hagerman, Manager, Business Services Group

Mr. Hagerman has been with the Bureau of Environmental Services since 1992 and has managed the Business Services Group since July 2005. Mr. Hagerman has held various positions within the finance area, including ratemaking, financial planning, budgeting, and debt management. Prior to working with the Bureau, Mr. Hagerman was employed by the State of Oregon Public Utility Commission and Reed College. He holds a Bachelor of Science degree in Economics and Mathematics from the University of Oregon and a Ph.D. in Economics from Northwestern University.

Stephen Behrndt, Manager, Wastewater Group

Mr. Behrndt has managed the Wastewater Group since 1997, responsible for operation, maintenance and administration of wastewater and stormwater collection, pumping and treatment facilities and related programs. He has been a manager in the Bureau for 25 years, having previously served as Public Works Superintendent from 1992 to 1997 and Maintenance Stores Systems Manager from 1990-1992. Mr. Behrndt came to the City in 1990 from the City of Eugene's Water Pollution Control Facility, where he was a manager in the Maintenance Division from 1984 to 1990. Mr. Behrndt holds a Bachelor of Science degree from the University of Oregon.

Jane Bacchieri, Manager, Watershed Services Group

Ms. Bacchieri joined the Bureau in January 2011. She is responsible for managing implementation of Portland's Watershed Management programs, Sustainable Stormwater Management program, and Science, Fish and Wildlife program. Ms. Bacchieri has over 15 years of experience in natural resources management, including 4 years as a Policy Advisor for Oregon Governor Ted Kulongoski, and positions with Oregon's Department of Land Conservation and Development, Department of State Lands, Portland State University, and the National Park Service. She has a Masters in Environmental Management from Duke University and an undergraduate degree in Biology from the University of Vermont.

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

Mr. Ryan was named Chief Engineer in May 2004. He is responsible for managing and developing the Bureau's CIP and providing CIP design and construction services to the Bureau. Mr. Ryan has over 30 years of engineering experience, with the last 22 years devoted to public works. He was the Bureau's Construction Manager from 1999 to 2004. Mr. Ryan is a registered civil and geotechnical engineer in Oregon. He holds a Master of Science degree in Civil Engineering from the University of Florida.

Marveita Redding, Manager, Pollution Prevention Services Group

Ms. Redding has been with the Bureau of Environmental Services since 1990 and was appointed the Manager of the Pollution Prevention Services Group in January 2007. From November 2005 until January 2007, she was Interim Manager, Pollution Prevention Services Group. From 1990 until November 2005, she was the Environmental Compliance Manager for the Bureau with responsibilities for the Bureau's compliance with federal, state and local environmental programs. During that period, she also was in charge of the Spill Protection and Citizen Response unit, the Brownfields Program and the Consolidated Site Assessment Program. She came to the City from the State of Oregon, Department of Agriculture where she served as the Executive Assistant to the Director. Prior to her state and local employment, Ms. Redding was an attorney with the U.S. Department of Agriculture, General Counsel. Ms. Redding holds a Bachelor of Arts degree from Pacific Union College and a Juris Doctor degree from the University of California, Hastings College of Law.

CAPITAL CONSTRUCTION AND FINANCING PROGRAM

CAPITAL PLANNING PROCESS

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

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

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

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

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

FACTORS AFFECTING SEWER SYSTEM CAPITAL INVESTMENT

During the period from FY 1991 to 2012, CSO-related expenditures were the primary focus of the Bureau's capital investment program. With the completion of the CSO program, the Bureau's current capital program will address the continuing need for investments to improve the maintenance and reliability of the existing facilities. As major facilities within the Sewer System begin to age, major reconstruction and maintenance projects will need to be undertaken. Forecast capital improvement expenditures within the Bureau's Maintenance and Reliability Program total \$332.8 million, or about 62 percent of the CIP, over the next five years.

CAPITAL IMPROVEMENT PROGRAM RESOURCES AND REQUIREMENTS

The City forecasts capital requirements for the Sewer System of approximately \$593 million (shown in Table 7 as cash transfers from the Sewer System Operating Fund and Capitalized Overhead) during the forecast period from FY 2014-15 through FY 2018-19. A brief description of the resources required to finance these requirements follows.

- Line and Branch Charges. Charges in lieu of assessment will be used to support CIP outlays. Line and branch charges are received in the form of cash and in the form of proceeds from special assessment bonds issued for property owners who elect to finance their line and branch charges.
- System Development Charges. System Development Charges (“SDCs”) are equity charges applied to properties at the time they connect to the Sewer System. SDCs are based upon the total cost of major sewer facilities, less grant revenues, divided by System capacity. SDC revenues support CIP projects and debt service.
- Current Income. Current Sewer System net income from service fees and charges will also be used to fund CIP outlays. The availability of current income to fund CIP expenditures is the result of meeting debt service coverage requirements on outstanding bonds. Cash contributions to capital construction are projected to total \$129.5 million over the five-year forecast period.
- Bond Proceeds. Proceeds from the sale of Sewer System revenue bonds will support the CIP. Debt service requirements for future bond sales after the issuance of the 2014 Series B Bonds have been forecast assuming a 20-year debt amortization schedule with level debt service for each series of bonds.
- Investment Income. Investment or interest income is earned on all Sewer System funds administered by the City Treasurer. Any investment income earned on balances within Sewer System funds helps offset required increases in sewer user fees.

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

Table 7
CITY OF PORTLAND, OREGON
Sewer System Construction Fund
Forecast Sources and Uses of Funds
and Estimated Changes in Fund Balances (1)

Fiscal Year	Projected 2013-14	Forecast 2014-15	Forecast 2015-16	Forecast 2016-17	Forecast 2017-18	Forecast 2018-19
(In thousands of dollars)						
RESOURCES:						
Line & Branch Charges	\$636	\$711	\$719	\$726	\$745	\$764
Cash Transfers In -						
Sewer System Operating Fund (2)	15,911	24,814	26,590	22,151	29,313	26,627
Bond Proceeds (Sewer Revenue Bonds)	87,123	221,466	0	192,215	0	198,585
Bond Proceeds (Limited Tax Improvement Bonds)	1,097	1,500	1,600	1,700	1,600	1,700
Note Proceeds (Line of Credit)	9,770	0	0	0	0	0
Interest On Investments	180	665	712	877	652	858
TOTAL RESOURCES	114,718	249,157	29,621	217,669	32,310	228,534
REQUIREMENTS:						
Cash Transfers Out:						
Sewer System Operating Fund (3)	94,208	108,301	104,739	108,736	108,669	108,002
Capitalized Overhead (to Operating Fund)	10,701	10,358	10,652	10,953	11,264	11,583
Sewer System Debt Redemption Fund (4)	0	13,912	0	17,450	0	18,030
Miscellaneous	486	254	0	1,340	0	1,380
TOTAL REQUIREMENTS	105,395	132,913	115,391	138,480	119,933	138,995
RESOURCES OVER (UNDER) REQUIREMENTS	9,322	116,332	(85,771)	79,189	(87,623)	89,589
BEGINNING FUND BALANCE	6,583	15,881	132,212	46,442	125,631	38,008
ENDING FUND BALANCE	\$15,881	\$132,212	\$46,442	\$125,631	\$38,008	\$127,547

Notes:

- (1) Totals may not sum due to rounding.
- (2) Represents cash financing of construction activity from sewer system revenues.
- (3) Expenditures for the capital program occur in the Operating Fund and are subsequently reimbursed from the Construction Fund.
- (4) Transfer of bond proceeds for cash-funded debt service reserves.

Source: Bureau of Environmental Services.

Planned CIP outlays (excluding capitalized overhead) total \$538 million over the five-year forecast period. The following table shows the construction costs estimated for the FY 2014-15 through FY 2018-19 forecast period by program and by major expense type.

Table 8
CITY OF PORTLAND, OREGON
Sewer System
Forecast Capital Improvement Program Costs
(excluding fund balances and cash transfers) (1)

Fiscal Year	Forecast 2014-15	Forecast 2015-16	Forecast 2016-17	Forecast 2017-18	Forecast 2018-19	5-Year Total
(In thousands of dollars)						
<u>SYSTEM PROGRAM</u>						
Sewage Treatment Systems	\$11,999	\$14,385	\$22,878	\$29,048	\$30,057	\$108,367
Maintenance & Reliability	72,919	72,371	65,582	60,353	61,254	332,479
Surface Water Management	16,827	13,903	14,421	14,379	12,644	72,174
System Development	6,556	4,079	5,855	4,889	4,047	25,426
TOTAL BY SYSTEM PROGRAMS	\$108,301	\$104,738	\$108,736	\$108,669	\$108,002	\$538,446

Notes:

(1) Totals may not sum due to rounding.

Source: Bureau of Environmental Services.

FINANCIAL POLICIES, PLANNING STANDARDS AND RATE SETTING

FIVE YEAR FINANCIAL PLAN

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

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

FINANCIAL OPERATIONS POLICIES

Ending Fund Balances

The Bureau maintains a financial planning policy that the combined ending fund balances within the Sewer System Operating Fund and the Rate Stabilization Fund must be equal to or greater than ten percent of each year's Operating Expenses, plus any required debt service reserves. Over the five year historical period from FY 2008-09 through FY 2012-13, the Bureau's combined Operating Fund and Rate Stabilization Fund ending balances have exceeded this policy threshold. This is due in part to the planned build-up of the Rate Stabilization Fund balance over the interval from FY 2001-02 to FY 2007-08 in order to smooth future rate increases from increased debt service. Although Rate Stabilization Fund balances declined as planned from FY 2007-08 through FY 2012-13, the Bureau exceeded its minimum planning standard of ten percent of Operating Expenses. For the forecast period beginning in FY 2013-14, combined Operating Fund and Rate Stabilization Fund ending balances are expected to exceed the minimum planning policy level of ten percent of Operating Expenses. In addition, as part of the Bureau's commitment to sound financial management, the Sewer System Operating Fund holds another \$180,000 reserve for State Revolving Fund loans outstanding in the amount of \$17.6 million as of June 30, 2013.

Use of Rate Stabilization Fund

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

DEBT POLICY AND PLANNING TARGETS

Conformance with City Debt Management Policy

All sewer revenue bonds are issued by the City in conformance with the Debt Management Policies [to be updated by an ordinance scheduled for consideration by the City Council on [date] along with other City Comprehensive Financial Management Policies]. Among the provisions included in the Debt Management Policy are the purposes for which debt may be issued, structure and term of City indebtedness, and refunding of outstanding debt.

Debt Service Coverage

The Bureau has established planning targets for First Lien Bonds and Second Lien Bonds that are more stringent than the legal requirements. Bond covenants for First Lien Bonds call for Net Revenues (including transfers to and from the Rate Stabilization Fund) to be at least 1.20 times the debt service on all outstanding Bonds due in that fiscal year. For Second Lien Bonds, Net Revenues (including transfers to and from the Rate Stabilization Fund) must be at least 1.10 times the Combined Annual Debt Service (as defined in the Master Second Lien Bond Declaration) on First and Second Lien Bonds. The Bureau's planning standard for First Lien Bonds is to set rates such that Net Revenues (including transfers to and from the Rate Stabilization Fund) are at least 1.50 times the debt service on First Lien Bonds due in that fiscal year. The Bureau also maintains a planning standard for Second Lien Bonds that will result in Net Revenues (including transfers to and from the Rate Stabilization Fund) of at least 1.30 times Combined Annual Debt Service on First and Second Lien Bonds. These two planning standards exceed the debt service coverage required by bond covenants and serve two purposes. First, the absolute dollar difference between the planning standard and the Bureau's legal debt service coverage

requirement provides a margin of safety for meeting coverage requirements. Second, the higher standards ensure ongoing equity contributions to the capital program, further strengthening financial operations.

The Bureau has always met the First Lien Bond and Second Lien Bond legal debt service coverage requirements and the First Lien Bond debt service coverage planning standard. The table below shows legally required debt service coverage, planning standards, and actual debt service coverage for FY 2012-13, and the projected debt service coverage for FY 2013-14.

Table 9
CITY OF PORTLAND, OREGON
Sewer System
Legal Debt Service Coverage, Planning Standard Target,
Actual and Projected Debt Service Coverage

Type	Legal Covenants	Planning Standard	2012-13 Actual	2013-14 Projected
First Lien Bonds				
without Rate Stabilization	1.00x	1.00x	1.87x	2.14x
with Rate Stabilization	1.20x	1.50x	1.94x	1.95x
Second Lien Bonds				
without Rate Stabilization	1.00x	1.00x	1.24x	1.43x
with Rate Stabilization	1.10x	1.30x	1.30x	1.30x

Source: City of Portland.

Also see Table 18 and Table 19 in “PROJECTED REVENUES AND EXPENDITURES” herein.

Financial Policies Relating to Variable Rate Obligations

The City does not currently have any variable rate debt outstanding secured by the revenues of the Sewer System. In the event of issuance of any future variable rate obligations, the Bureau has adopted the following policies to manage the risks associated with this variable rate debt:

- The Bureau will maintain reserves sufficient to offset interest rates at three percent above forecast levels for two years.
- The interest rate used to calculate debt service for the variable rate bonds in the Bureau’s financial forecasts (for the purpose of determining planning standard coverage requirements) will be at least 100 basis points (1.0%) higher than the most recent actual rate on variable rate bonds.
- Funds representing the difference between forecast and Actual Debt Service on variable rate bonds will be used first to fund and maintain the reserve for interest rate risk, then to retire outstanding Sewer System debt.
- The Bureau will review the interest rate assumptions and revise them as necessary to satisfy the one-percent margin for the forecasts underlying the annual five-year financial plan and the annual rate study. The Bureau may update the assumptions more frequently should it determine the need to do so.

RATE SETTING

System rates are set on a cost-of-service basis such that customers are charged for their proportional share of collecting, transporting, and treating discharges to the System. This approach is in conformance with EPA guidelines. The Bureau prepares a rate study annually to determine how System revenue requirements from rates should be recovered from individual customer classes and rate components. The primary objectives of the rate study are to ensure that: 1) funding for Bureau operations is provided at the level authorized in the adopted budget; 2) costs are recovered from customers in a fair and equitable manner using City Council defined cost-of-service ratemaking principles; and, 3) cost recovery mechanisms are compatible with other City objectives, including environmental protection and sustainability, and compliance with legal and regulatory constraints. Before going into effect, the rates and charges calculated in the rate study are adopted by the City Council. Historically the City Council has been supportive of rate increases needed to implement capital program priorities, including the Combined Sewer Overflow Abatement Program. Over the last 20 years, average single-family residential bills have increased an average of 6.7 percent annually. See also “SEWER SYSTEM FINANCIAL AND OPERATING INFORMATION—USER CHARGE BILLING AND COLLECTION” and Table 10, “Historical Monthly Rates and Charges” herein.

SEWER SYSTEM FINANCIAL AND OPERATING INFORMATION

OVERVIEW

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

FUND ACCOUNTING SYSTEM

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

Sewer System Operating Fund

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

Sewer System Construction Fund

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

Sewer System Debt Redemption Fund

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

Sewer System Rate Stabilization Fund

The Sewer System Rate Stabilization Fund allows for better financial management by enabling the City to level fluctuations in Sewer System revenues (primarily connection charges) from year to year.

Environmental Remediation Fund

The Environmental Remediation Fund has in the past supported the City's waste disposal site remediation activities and contributes funds to the Portland Harbor Superfund investigation. Beginning FY 2005-06, all expenditures for the Portland Harbor Superfund program occur in this fund, which is funded through Willamette River/Portland Harbor rate revenues. These revenues appear as separate line items in a customer's sewer bill.

For financial reporting purposes, the first four of the above-referenced funds (all except the Environmental Remediation Fund) are included within the Sewage Disposal Fund. The financial statements of the Sewage Disposal Fund and the Environmental Remediation Fund are reported in APPENDIX E of this Official Statement.

HISTORICAL REVENUES AND EXPENDITURES

The City has maintained Sewer System Gross Revenues sufficient to provide for all operating expenditures and debt service, and has met legal debt service coverage requirements. In addition to meeting these requirements, the City's Sewer System Gross Revenues have provided substantial cash to finance the CIP in combination with federal grants and the proceeds of revenue bond sales. Historical results of the Bureau's financial operations are shown in Table 18. Audited statements of revenues, expenditures, changes in retained earnings, and the audited balance sheet for the Sewer System Operating Fund are presented in APPENDIX E.

USER CHARGE BILLING AND COLLECTION

Ratemaking and Authorization

Section 11-302 of the City Charter authorizes the City Council to fix fees and charges for connection to and use of the Sewer System. Sewer user fees and connection charges are formally reviewed every year by the Bureau. Rates required to support proposed activities and meet all obligations to bondholders under the Ordinance are submitted annually by the Director of the Bureau to the City Council for review and approval. No governmental approval, other than the City Council's, is required. The City Council approved an increase to the average single-family residential bill of approximately 4.0 percent for FY 2014-15 in May 2014. Over the last 20 years, average single-family residential bills have increased an average of 6.7 percent annually.

Billings and Collections

Sewer System billings and collection services for retail customers are provided by the City's Water Bureau. Bills sent to customers include separate line items for water and Sewer System services. As of April 2014, Sewer System billings and collection services for retail customers are on a quarterly cycle for approximately 168,699 accounts, a bimonthly cycle for approximately 5,477 accounts, and on a monthly basis for 5,582 large user accounts. Bills sent to customers include separate line items for sewer, stormwater, and water services. For delinquent bills, the Water Bureau implements service shutoffs on behalf of the Bureau.

As of April 2014, there were 5,477 accounts receiving water from the Rockwood Water People's Utility District, or the Lorna Water District. Since they are not City water customers, there is no water shutoff option for collection of delinquent sewer bills for these customers. Past due balances currently total approximately \$2.7 million for this group. Liens have been used for owner-occupied single family properties in the past.

Wholesale customers are billed at various times during a fiscal year ranging from bi-monthly to quarterly. As of June 30, 2013, no wholesale customer was delinquent with respect to billed charges.

Clean River Rewards Program

To reflect the contributions to stormwater management made by individuals who install stormwater facilities on site, the City Council directed the Bureau to develop a discount program for stormwater charges. That program, referred to as the Clean River Rewards Program, was implemented on October 30, 2006. It provides for up to a 35 percent discount on the stormwater portion of the bill for customers who manage all stormwater on-site.

In the nearly seven years since the Clean River Rewards Program was implemented, approximately 35,800 customers have registered for and are receiving discounts on their stormwater bills, approximately 20 percent of the total customer base. Funding is provided by adjusting stormwater rates for all classes of customers upward to offset the revenue reductions from the stormwater discount program.

Low Income Discounts

In May of 1997 the City Council approved an expanded version of an existing low-income assistance program. For FY 2014-15, the bill discount is 44 percent of a typical single-family bill, which lowers sewer bills for eligible residential households by approximately \$28.98 per month or \$347.76 per year. Funding is provided by adjusting rates for all classes of customers upward to offset the revenue reductions from the low-income discount program. Total sewer revenue redistribution from low-income discount rates is estimated at approximately \$3.1 million for FY 2013-14.

Extra Strength Charges

Prior to 2012, the Bureau monitored and charged about 72 commercial/industrial customers for extra strength sanitary sewage discharges based upon samples taken and laboratory analysis of their sewage discharges. However, as many as 3,400 other customers are believed to have discharge strength significantly higher than the residential or baseline strength. Therefore the cost of treatment for the added loading from these customers historically has been borne by others.

The Bureau has developed a "class average" system of strength-based rates for commercial and industrial customers that will improve both customer equity and pollution prevention incentives. Apart from implementation costs, this is a revenue-neutral program and the estimated \$2.9 million collected annually will result in lower rates for other customers systemwide. The program also is intended to provide an economic incentive to customers to reduce grease discharges, which is important to the Bureau for both regulatory compliance and reduced maintenance costs.

The Bureau has finalized its administrative rules for the Class Average Extra Strength Program and began implementation on January 1, 2012. Full implementation using a phased approach is expected to take approximately three years. As of May 30, 2014, more than 2,200 Class Average Extra Strength Program accounts have been set up.

Wholesale Rates

The City currently provides contractual services to one major wholesale customer, the City of Lake Oswego, Oregon, and several smaller wholesale customers, including county service districts and portions of two other cities. Each wholesale service contract provides for full cost recovery during the life of the contract. Charges to wholesale customers are estimated to be approximately \$3,565,000 for FY 2013-14, which is approximately 1.2 percent of total System operating revenues.

Table 10
CITY OF PORTLAND, OREGON
Sewer System
Historical Monthly Rates and Charges (1)

Fiscal Year	2009-10	2010-11	2011-12	2012-13	2013-14
<u>CUSTOMER CLASS</u>					
<u>Residential</u>					
Sanitary Volume (\$/ccf)	6.61	7.01	7.63	8.20	8.70
Impervious Area Charge (\$/1000 sq. ft.)	8.64	9.42	9.65	10.18	10.36
Average Single-Family Monthly Bill(\$/account) (2)	50.15	53.33	56.52	59.57	62.74
<u>Commercial</u>					
Sanitary Volume (\$/ccf)	6.743	7.135	7.719	8.181	8.685
Cooling (Clean) Water To Storm Sewer (\$/ccf)	0.726	0.736	0.777	0.824	0.883
Impervious Area Charge (\$/1000 sq. ft.)	9.25	10.00	10.30	10.77	10.97
<u>Extra Strength</u>					
Biochemical Oxygen Demand (\$/lb.)	0.527	0.547	0.583	0.574	0.601
Suspended Solids (\$/lb.)	0.639	0.667	0.711	0.696	0.744
<u>Capital Charges</u>					
Sanitary System Development Charge (\$/EDU)	3,835	4,089	4,335	4,335	4,551
<u>Year-to-Year Percentage Increase</u>					
Of Avg. Single-Family Monthly Bill (2)	7.0%	6.3%	6.0%	5.4%	5.3%

Notes:

- (1) Abbreviations used in the table include the following: "ccf" (hundred cubic feet) and "EDU" (Equivalent Dwelling Units).
- (2) Average bills have been restated to reflect average annual billed consumption, which is lower than winter average use.

Source: Bureau of Environmental Services.

Major Retail Users

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

Table 11
CITY OF PORTLAND, OREGON
Sewer System
Largest Bureau Customers (FY 2013-14)

<u>CUSTOMER</u>	<u>Total Sewer Charges</u>	<u>Percentage of Rate Revenues</u>
Oregon Health and Science University (OHSU)	\$2,130,299	0.76%
Port of Portland	2,114,413	0.76
Portland Public Schools	1,993,537	0.72
Precision Castparts	1,858,482	0.67
Darigold Inc.	1,811,163	0.65
Siltronic Corp.	1,293,193	0.46
Portland State University	1,211,176	0.43
American Property Management	1,145,120	0.41
Fred Meyer Inc.	1,113,065	0.40
Widmer Brewing Company	1,068,970	0.38
Total	<u>\$15,833,859</u>	<u>5.68%</u>

Source: City of Portland.

UTILITY LICENSE FEE

The Utility License Fee is paid directly to the City's General Fund for the right to operate a public or private utility within the City. The fee is levied per City Code Chapter 7.14. The Bureau, the Water Bureau, and City-owned golf courses pay this fee along with private utilities such as cable, telephone, gas, and electric.

Currently, the utility license fee is not subject to regulation by State law and may be raised at the discretion of the City Council. The Utility License Fee is subordinated to the payment of debt service on the First Lien Bonds and Second Lien Bonds.

On September 1, 2004, the City Council voted to cap utility license fees for the water and sewer utilities at the FY 2004-05 budgeted levels until those levels represent five percent of retail utility revenues. Consequently, the Bureau's budgeted utility license fee payment remained at \$12.8 million from FY 2006-07 until FY 2012-13. After that time, utility license fee payments may grow again, but cannot exceed five percent of utility revenues. In FY 2013-14, the utility license fees payments are projected to be \$13.9 million.

OUTSTANDING SEWER SYSTEM DEBT

Revenue Bonds

Upon the issuance of the 2014 Bonds, the City expects to have a total of \$1,786,250,000 of Sewer System First and Second Lien Bonds outstanding and an additional \$17,554,815 of outstanding Subordinate Obligations. The following table shows outstanding First Lien Bonds, Second Lien Bonds, and Subordinate Obligations as of the delivery of the 2014 Bonds.

Table 12
CITY OF PORTLAND, OREGON
Sewer System
Outstanding First Lien Bonds, Second Lien Bonds, and Subordinate Obligations

<u>Issue</u>	<u>Dated</u>	<u>Final Maturity</u>	<u>Original Par Amount</u>	<u>Amount Outstanding</u>
First Lien Bonds				
2004 Series A Bonds	11/30/2004	10/01/2014	\$163,500,000	\$7,700,000
2004 Series B Bonds	11/30/2004	06/01/2017	93,080,000	79,180,000
2005 Series A Bonds	06/16/2005	08/01/2020	144,850,000	144,850,000
2006 Series A Bonds	05/25/2006	06/15/2031	177,845,000	142,040,000
2007 Series A Bonds	03/08/2007	06/01/2015	193,510,000	31,530,000
2008 Series A Bonds	04/10/2008	06/15/2033	333,015,000	266,340,000
2014 Series A Bonds	08/14/2014	10/01/2024	86,165,000	86,165,000
Subtotal			<u>\$1,191,965,000</u>	<u>\$757,805,000</u>
Second Lien Bonds				
2006 Series B Bonds	05/25/2006	06/15/2031	\$87,135,000	\$69,865,000
2008 Series B Bonds	04/10/2008	06/15/2033	195,700,000	187,505,000
2010 Series A Bonds	08/19/2010	03/15/2035	407,850,000	362,010,000
2013 Series A Bonds	09/17/2013	08/01/2038	210,965,000	204,845,000
2014 Series B Bonds	08/14/2014	10/01/2039	204,220,000	204,220,000
Subtotal			<u>\$1,105,870,000</u>	<u>\$1,028,445,000</u>
Subordinate Obligations (1)				
SRF Loans	Various	Various	\$26,302,393	\$17,356,054
Brookside Loan	10/15/1997	12/01/2017	700,000	198,761
Subtotal			<u>\$27,002,393</u>	<u>\$17,554,815</u>
TOTAL			<u><u>\$2,324,837,393</u></u>	<u><u>\$1,803,804,815</u></u>

Notes:

(1) See "PROVISIONS OF THE 2014 BONDS—SUBORDINATE OBLIGATIONS" herein.

Source: City of Portland.

The following table shows the Sewer System’s expected annual debt service requirements associated with outstanding First Lien Bonds and Second Lien Bonds.

Table 13
CITY OF PORTLAND, OREGON
Sewer System Revenue Bonds
Annual Debt Service Requirements

Fiscal Year	Outstanding	First Lien	Outstanding	Second Lien	
Ending	First	2014 Series A	Second	2014 Series B	Total
30-Jun	Lien Bond	Bond Debt	Lien Bond	Bond	Debt Service
	Debt Service	Service	Debt Service	Debt Service	
2015	\$95,355,281	\$2,716,591	\$61,115,350	\$5,498,949	\$164,686,171
2016	87,256,419	10,943,125	61,109,850	13,069,300	172,378,694
2017	87,272,919	10,949,000	61,113,400	13,070,550	172,405,869
2018	88,119,169	10,946,875	61,124,775	13,070,050	173,260,869
2019	79,839,169	10,950,875	66,483,025	13,072,175	170,345,244
2020	79,841,319	10,950,000	65,602,400	13,071,300	169,465,019
2021	79,830,006	10,948,375	65,948,400	13,071,800	169,798,581
2022	27,851,150	10,945,000	118,843,300	13,072,925	170,712,375
2023	27,851,088	10,953,500	118,877,175	13,069,050	170,750,813
2024	27,845,963	10,942,875	58,364,700	13,069,425	110,222,963
2025	27,854,100	10,947,000	50,822,500	13,073,050	102,696,650
2026	27,855,438	-	50,828,075	13,069,175	91,752,688
2027	27,848,313	-	50,816,325	13,071,925	91,736,563
2028	27,850,588	-	50,822,875	13,072,800	91,746,263
2029	27,847,425	-	50,816,675	13,072,625	91,736,725
2030	27,851,963	-	50,817,850	13,071,400	91,741,213
2031	27,846,650	-	50,824,350	13,070,800	91,741,800
2032	15,619,625	-	44,712,875	13,070,900	73,403,400
2033	15,623,463	-	44,704,125	13,071,100	73,398,688
2034	-	-	40,391,000	13,070,800	53,461,800
2035	-	-	40,399,250	13,069,400	53,468,650
2036	-	-	12,533,875	13,071,200	25,605,075
2037	-	-	12,529,250	13,070,500	25,599,750
2038	-	-	12,532,000	13,071,600	25,603,600
2039	-	-	12,530,625	13,068,800	25,599,425
2040	-	-	-	13,071,300	13,071,300
Total	\$907,260,048	\$112,193,216	\$1,314,664,025	\$332,272,899	\$2,666,390,188

Source: City of Portland.

PROJECTED REVENUES AND EXPENDITURES

Sewer System historical and forecast operating results are shown in the tables which follow. In general, the results reflect relatively moderate growth in operating expenditures. The financial forecast through FY 2017-18 has been developed in conformance with the Bureau’s financial policies and planning standards. (See “FINANCIAL POLICIES, PLANNING STANDARDS AND RATE SETTING.”)

ASSUMPTIONS

Key assumptions underlying the revenue forecast through FY 2018-19 include:

- Annual rate increases of 4.00 percent in FY 2014-15 (approved by the City Council on May 28, 2014, by Ordinance 186605) 3.75 percent in FY 2015-16, and 3.50 percent in FY 2016-17, FY 2017-18, and FY 2018-19;
- System development charge revenues will average \$13.0 million annually;
- Annual growth of 0.25 percent in the number of accounts within the City in FY 2014-15 and FY 2015-16, and 0.5 percent thereafter;
- Annual reduction in monthly usage of 1.5 percent for single family residences, 0.75 percent for multi-family residences, and 0.75 percent for commercial users due to water conservation;
- Planned debt service coverage ratios of at least 1.50 on First Lien Bonds and 1.30 on First and Second Lien Bonds combined; and
- An operating reserve equal to a minimum of 10 percent of operating expenses for unforeseen financial needs.

Key assumptions underlying the cost forecast include:

- 2.63 percent annual inflation for external materials and services;
- 2.70 percent annual inflation for personal services in FY 2014-15, with 2.83 percent thereafter; and
- 1.04 percent annual inflation for utilities;
- 3.10 percent annual inflation for internal materials and services.

Assumptions underlying the debt forecast include:

- Long-term debt issued after the 2014 Series B Bonds in support of future years’ capital improvement programs, in the following gross amounts (including projected costs of issuance):

<u>Fiscal Year</u>	<u>Amount</u>
2015-16	\$0
2016-17	192,215,000
2017-18	0
2018-19	198,585,000
TOTAL	<u>\$390,800,000</u>

- All future amounts are assumed to be Second Lien Bonds. The City may choose to issue First Lien Bonds in future fiscal years where Second Lien Bonds are currently assumed.
- A 6.5 percent interest rate on the future fixed-rate debt issues, including funding of debt service reserves with bond proceeds.

USE OF RATE STABILIZATION FUND

The Bureau uses transfers between the Sewer System Operating Fund and the Sewer System Rate Stabilization Fund to smooth rate increases while ensuring that coverage meets planning standards purposes. Balances in the Rate Stabilization Fund were being collected between FY 2002-03 and FY 2007-08 in anticipation of funding needs related to the completion of the Eastside CSO project and have been drawn down through FY 2012-13. As shown in Table 15 below, balances are projected to be rebuilt to smooth the impact of future debt issues on sewer rates. (See “FINANCIAL POLICIES, PLANNING STANDARDS AND RATE SETTING—FINANCIAL OPERATIONS POLICIES” herein.)

Table 14
CITY OF PORTLAND, OREGON
Sewer System
Historical and Projected Rate Stabilization
Ending Fund Balance (1)

<u>Fiscal Year</u>		<u>Ending Balance</u>
2008-09		\$68,615,053
2009-10		38,090,996
2010-11		13,990,074
2011-12		12,356,845
2012-13		4,864,460
2013-14	Forecast	23,794,000
2014-15	Forecast	23,463,000
2015-16	Forecast	16,900,000
2016-17	Forecast	23,405,000
2017-18	Forecast	14,540,000
2018-19	Forecast	20,531,000

Notes:

- (1) Balances reflect transfers to and from the Sewer System Operating Fund as well as interest earnings on Rate Stabilization Fund balances.

Source: Bureau of Environmental Services.

Table 15
CITY OF PORTLAND, OREGON
Sewer System
Forecast Customer Accounts (1)

Fiscal Year	Forecast 2014-15	Forecast 2015-16	Forecast 2016-17	Forecast 2017-18	Forecast 2018-19
Customer Class					
Residential					
Single Family	156,345	156,734	157,514	158,299	159,088
Multi Family					
Monthly	2,426	2,436	2,446	2,457	2,468
Quarterly	8,494	8,536	8,579	8,622	8,665
TOTAL RESIDENTIAL	167,265	167,706	168,539	169,378	170,221
Commercial					
Monthly	4,275	4,284	4,301	4,318	4,335
Quarterly	10,115	10,141	10,191	10,242	10,293
Extra Strength	60	60	60	60	60
Commercial Clean Water to Storm Sewer	15	15	15	15	15
TOTAL COMMERCIAL	14,465	14,500	14,567	14,635	14,703
Total Forecast Accounts	181,730	182,206	183,106	184,013	184,924

Notes:

(1) Table reports annual average customer accounts.

Source: Bureau of Environmental Services.

Table 16
CITY OF PORTLAND, OREGON
Sewer System
Current and Forecast Monthly Rates and Charges (1)

Fiscal Year	Approved 2014-15	Forecast 2015-16	Forecast 2016-17	Forecast 2017-18	Forecast 2018-19
<u>CUSTOMER CLASS</u>					
<u>Residential</u>					
Sanitary Volume (\$/ccf) (2)	9.23	9.70	10.15	10.60	11.07
Impervious Area Charge (\$/1,000 sq. ft.) (2)	10.82	11.27	11.74	12.26	12.81
Average Single-Family Monthly Bill (\$/Account) (3)	65.25	67.70	70.06	72.52	75.06
<u>Commercial</u>					
Sanitary Volume (\$/ccf) (2)	9.097	9.572	10.010	10.456	10.906
Cooling (Clean) Water To Storm Sewer (\$/ccf)	0.924	0.959	0.992	1.027	1.063
Impervious Area Charge (\$/1,000 sq. ft.) (2)	11.29	11.80	12.36	12.94	13.51
Extra Strength Biochemical Oxygen Demand (\$/lb.)	0.622	0.645	0.668	0.691	0.715
Suspended Solids (\$/lb.)	0.770	0.799	0.827	0.856	0.886
<u>Capital Charges (4)</u>					
Sanitary Sewer SDC (\$/EDU)	4,779	5,066	5,370	5,692	6,033
Forecast Year-to-Year Percentage Increase of Avg. Single-Family Monthly Bill	4.00%	3.75%	3.50%	3.50%	3.50%

Notes:

- (1) Abbreviations used in the table include the following: “ccf” (hundred cubic feet) and “EDU” (Equivalent Dwelling Units).
- (2) Residential and commercial volume and impervious area charges include the Willamette River/Portland Harbor Superfund Charge, which was split out separately on sewer bills beginning in FY 2007-08. See also “SEWER SYSTEM FINANCIAL AND OPERATING INFORMATION—FUND ACCOUNTING SYSTEM—Environmental Remediation Fund” herein.
- (3) Average bills reflect average annual billed consumption, which is lower than winter average use.
- (4) Capital charges for FY 2015-16 and beyond are estimated; state law requires that these fees to be based on actual capital projects completed, thus they are computed annually.

Source: Bureau of Environmental Services.

COMPARISON OF MONTHLY RESIDENTIAL BILLS

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

Table 17
CITY OF PORTLAND, OREGON

Sewer System
Comparison of Average Monthly Sewer and Stormwater Bills
For Single Family Residential Monthly Customers (1)

<u>Local/Regional</u>	<u>Monthly Bill</u>
Seattle, WA	\$84.17
Lake Oswego, OR	76.16
Newport, OR	75.28
Tacoma, WA	66.69
Portland, OR	65.25
Olympia, WA	64.24
Milwaukie, OR	59.95
Spokane, WA	56.71
Puyallup, WA	55.10
McMinnville, OR	53.29
Vancouver, WA	51.80
Bend, OR	49.70
Yachats, OR	49.25
Tigard, OR	48.36
Tualatin, OR	47.63
Beaverton, OR	46.92
Washington County, OR	46.36
Clackamas County, OR	46.35
Eugene, OR	46.32
Salem, OR	42.87
Corvallis, OR	40.57
Ashland, OR	37.09
Gresham, OR	36.14
National	
Atlanta, GA	\$108.08
Honolulu, HI	97.77
Cincinnati, OH	70.02
Juneau, AK	67.34
Portland, OR	65.25
Richmond, VA	63.35
Sacramento, CA	62.73
Knoxville, TN	59.45
Kansas City, MO	55.10
Cleveland, OH	51.99
Charlotte, NC	48.81
San Diego, CA	48.66
Washington, DC	48.53
San Francisco, CA	47.86
Fort Collins, CO	44.82
Boston, MA	44.48
Baltimore, MD	39.61
Nashville, TN	38.88
Philadelphia, PA	37.54
Denver, CO	37.04
Colorado Springs, CO	35.17
Salt Lake City, UT	16.73

Notes:

(1) As of July 2014. Bills are calculated based on average sewer usage as reported by each agency.

Source: Bureau of Environmental Services.

HISTORICAL AND PROJECTED RESULTS OF FINANCIAL OPERATIONS

Tables 18 and 19 show historical and projected results of the Sewer System's financial operations for FY 2008-09 through FY 2018-19. As shown in Table 19, total gross revenues are forecast to increase from the current year projection of \$309.6 million to \$375.1 million, an annual compound increase of 3.9 percent. Total operating revenues are projected to grow at an annual compound rate of 3.9 percent over the forecast interval, from the current year's projection of \$287.6 million to \$356.3 million in FY 2018-19. Service charges and fees are the largest component of operating revenues. Their growth from \$279.7 million to \$348.6 million over the same interval (an annual compound increase of 4.5 percent) reflects forecast residential bill increases averaging 3.65 percent, 0.4 percent average annual growth in the number of accounts served, and continued water conservation by residential and commercial customers. In addition to base customer growth, service charge and fee revenues are forecast to increase in excess of the average rate increase due to a number of factors. Commercial and multifamily impervious areas have increased as a result of recent Bureau efforts to update impervious area measurements. The Bureau has expanded its extra strength program to include smaller non-monitored customer types (e.g., restaurants and laundries) where industry data show average concentrations for these customer to be in excess of domestic strength limit. Finally, retail stormwater rates were newly assessed beginning in FY 2013-14 to approximately 1,400 customers in three Multnomah County drainage districts within the city limits.

Forecast Operating Expenses increase from the current year's projection of \$119.1 million to \$127.6 million in FY 2018-19, an annual average increase of 1.4 percent, but an annual average increase of 4.0% if excluding transfers to the Rate Stabilization Fund. Net Revenues are forecast to increase from the current year's projected \$190.5 million to \$247.5 million in FY 2018-19, an annual compound increase of 5.4 percent. First and second lien debt service requirements are projected to increase from the current \$146.6 million to \$190.1 million in FY 2018-19. During the FY 2014-15 to 2018-19 forecast period, the Bureau expects to maintain debt service coverage at or above the 1.50 policy standard on the First Lien Bonds, and to meet the 1.30 policy standard on the First and Second Lien Bonds combined.

Table 18
CITY OF PORTLAND, OREGON
Sewer System
Historical Operating Results (1)

Fiscal Year	2008-09	2009-10	2010-11	2011-12	2012-13
(In thousands of dollars)					
GROSS REVENUES					
Operating Revenues:					
Service Charges & Fees	\$207,909	\$217,557	\$231,883	\$244,059	\$259,898
Wholesale Contracts	3,859	3,206	3,378	3,727	3,926
Other Service Charges & Miscellaneous	3,401	3,011	6,123	3,800	4,241
Total Operating Revenues	215,169	223,774	241,384	251,586	268,065
System Development Charges	7,791	4,566	5,431	9,138	12,949
Interest Earnings	7,287	2,115	1,981	1,091	571
Cash Transfers In -					
Rate Stabilization Fund	10,000	9,750	29,500	18,585	7,550
Other Funds	1,331	1,234	2,095	2,363	3,391
TOTAL GROSS REVENUES (2)	\$241,578	\$241,440	\$280,391	\$282,764	\$292,525
OPERATING EXPENSES (3)					
Personal Services	\$37,650	\$39,767	\$40,513	\$45,284	\$45,650
Materials and Services	23,704	21,985	18,195	19,119	21,431
Internal Services	27,741	28,892	31,411	30,748	34,079
Capitalized Overhead	(10,863)	(10,173)	(9,932)	(9,867)	(7,993)
Cash Transfers Out -					
General Fund Overhead	5,142	5,517	5,449	6,901	7,507
Rate Stabilization Fund	0	0	0	0	0
Other	1,497	1,225	3,785	1,782	1,629
TOTAL OPERATING EXPENSES	\$84,871	\$87,213	\$89,421	\$93,966	\$102,303
NET REVENUES	\$156,706	\$154,227	\$190,970	\$188,797	\$190,222
DEBT SERVICE FOR COVERAGE					
First Lien Bonds	\$90,026	\$90,032	\$97,804	\$97,790	\$97,806
Second Lien Bonds (4)	29,598	28,504	48,484	49,092	49,075
TOTAL DEBT SERVICE	\$119,624	\$118,536	\$146,288	\$146,881	\$146,882
DEBT SERVICE COVERAGE (5)					
<u>With Rate Stabilization Transfers</u>					
First Lien Bonds	1.74x	1.71x	1.95x	1.93x	1.94x
First and Second Lien Bonds (6)	1.31x	1.30x	1.31x	1.29x	1.30x
<u>Without Rate Stabilization Transfers</u>					
First Lien Bonds	1.63x	1.60x	1.65x	1.74x	1.87x
First and Second Lien Bonds	1.23x	1.22x	1.10x	1.16x	1.24x

Notes:

- (1) Totals may not sum due to rounding.
- (2) As defined in the Master First Lien Bond Ordinance.
- (3) As defined in the Master First Lien Bond Ordinance. Excludes depreciation.
- (4) Interest calculated as defined in Master Second Lien Bond Declaration.
- (5) The Debt Service Coverage shown may differ slightly than what has been published previously in the City's Comprehensive Annual Financial Reports (CAFR), as the result of corrections to previous calculations. None of the corrections had a significant impact on coverages.
- (6) Debt service coverage below the Bureau's planning standard in FY 2011-12 reflects a decision to preserve capacity in the Rate Stabilization Fund against future demand fluctuations.

Source: Bureau of Environmental Services.

Table 19
CITY OF PORTLAND, OREGON
Sewer System
Projected Operating Results (1)

Fiscal Year	Projected 2013-14	Forecast 2014-15	Forecast 2015-16	Forecast 2016-17	Forecast 2017-18	Forecast 2018-19
(In thousands of dollars)						
GROSS REVENUES						
Operating Revenues:						
Service Charges & Fees	\$279,748	\$293,027	\$306,452	\$322,297	\$334,995	\$348,561
Wholesale Contracts	3,398	3,525	3,634	3,747	3,863	3,983
Other Service Charges & Miscellaneous	4,436	3,314	3,417	3,523	3,632	3,745
Total Operating Revenues	287,583	299,866	313,503	329,567	342,491	356,289
System Development/Line & Branch Charges	18,127	12,661	12,234	12,936	13,131	13,898
Interest Earnings	909	1,281	1,453	1,644	1,504	1,723
Cash Transfers In -						
Rate Stabilization Fund	0	450	6,700	0	9,000	0
Other Funds	2,999	2,856	2,944	3,036	3,130	3,227
TOTAL GROSS REVENUES (2)	\$309,619	\$317,115	\$336,834	\$347,182	\$369,256	\$375,136
OPERATING EXPENSES (3)						
Personal Services	\$46,111	\$48,966	\$50,641	\$52,618	\$55,706	\$58,001
Materials and Services	22,978	22,179	22,850	23,256	23,578	23,916
Internal Services	30,977	33,880	35,467	36,762	37,851	38,883
Capitalized Overhead	(10,701)	(10,358)	(10,652)	(10,954)	(11,264)	(11,583)
Cash Transfers Out -						
General Fund Overhead (4)	6,964	3,936	6,212	6,384	6,559	6,740
Rate Stabilization Fund	18,900	0	0	6,400	0	5,900
Other	3,864	4,400	4,818	5,175	5,471	5,747
TOTAL OPERATING EXPENSES	\$119,093	\$103,002	\$109,337	\$119,641	\$117,901	\$127,603
NET REVENUES	\$190,526	\$214,113	\$227,497	\$227,542	\$251,355	\$247,533
DEBT SERVICE						
First Lien Bonds (5)	\$97,786	\$98,072	\$98,200	\$98,222	\$99,066	\$90,790
Second Lien Bonds (6)	48,803	66,614	74,179	74,184	91,640	97,000
TOTAL DEBT SERVICE	\$146,589	\$164,686	\$172,379	\$172,406	\$190,706	\$187,790
DEBT SERVICE COVERAGE (7)						
<u>With Rate Stabilization Transfers</u>						
First Lien Bonds	1.95x	2.18x	2.32x	2.32x	2.54x	2.73x
First Lien and Second Lien Bonds	1.30x	1.30x	1.32x	1.32x	1.32x	1.32x
<u>Without Rate Stabilization Transfers</u>						
First Lien Bonds	2.14x	2.18x	2.25x	2.38x	2.45x	2.79x
First Lien and Second Lien Bonds	1.43x	1.30x	1.28x	1.36x	1.27x	1.35x

Notes:

- (1) Totals may not sum due to rounding.
- (2) As defined in the Master First Lien Bond Ordinance.
- (3) As defined in the Master First Lien Bond Ordinance. Excludes depreciation.
- (4) FY 2014-15 costs for overhead services are projected at \$3.9 million to correct for prior year over-charges. See "THE BUREAU OF ENVIRONMENTAL SERVICES—SERVICES PROVIDED BY OTHER CITY BUREAUS" herein.
- (5) Includes debt service on outstanding First Lien Bonds, including the 2014 Series A Bonds, but excludes debt service on the portion of the 2004 Series A Bonds refunded with the 2014 Series A Bonds.
- (6) Includes debt service on outstanding Second Lien Bonds, 2014 Series B Bonds, and additional Second Lien Bonds issues of \$192,215,000 in FY 2016-17 and \$198,585,000 in FY 2018-19 at assumed interest rates of 6.50 percent.

Source: Bureau of Environmental Services.

SUPPLEMENTAL INFORMATION

FY 2014-15 BUDGET

After several years of recessionary economic conditions, the City is beginning to experience modest economic growth. Home values are improving as the housing market recovers and overall employment levels are up.

Following a FY 2013-14 budget that required more than \$20 million of ongoing General Fund reductions, the FY 2014-15 budget allows for modest increases. At the onset of the budget process, the Mayor and City Council advised bureaus relying on General Fund resources that the FY 2014-15 budget would be a “stabilization” budget, in which bureaus did not have to submit reduction packages but also should not expect significant add packages. Bureaus that are not reliant on General Fund resources, including the Bureau and the Portland Water Bureau, were directed to work with their commissioner-in-charge to develop their budget proposals. Both the Bureau and the Portland Water Bureau were required to submit their budgets with 2.5 percent operating cuts in order to moderate rate increases.

The FY 2014-15 Adopted Budget includes rate increases for the Bureau and the Portland Water Bureau of approximately 4.0% and 7.0%, respectively, for a combined bill increase of just under 5.0%. The average, combined single family residential sewer/water bill based on the adopted budget is expected to increase by \$4.44 per month. The City’s FY 2014-15 Adopted Budget was adopted in June 2014.

UTILITY OVERSIGHT

On January 8, 2014, the City Council approved a partnership agreement between the City and the Citizens’ Utility Board of Oregon (the “CUB”). The CUB is a non-profit organization created in 1984 by a citizens’ ballot initiative to represent the interests of residential ratepayers statewide. During this five-year partnership, the CUB will provide outside, independent analysis of the operations, budgets, and rates of the City’s two utility bureaus, the Bureau and the Portland Water Bureau.

In June 2014, Mayor Hales and Commissioner Fish announced the formation of a twelve member Utility Oversight Blue Ribbon Commission. The City Council directed that an independent commission convene from July to November 2014 to analyze potential reforms of the oversight and accountability of the Portland Water Bureau and the Bureau, and then report to the City Council. The Commission will focus on streamlining communications and transparency in the rate-making process.

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 20
CITY OF PORTLAND, OREGON
Statewide Initiative Petitions that Qualified and Passed
2004-2012

<u>Year of General Election</u>	<u>Number of Initiatives that Qualified</u>	<u>Number of Initiatives that Passed</u>
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 last date for filing signatures to qualify an initiative measure for the November, 2014 general election was July 3, 2014. Twenty–two initiative petitions are currently active, but the Oregon Secretary of State has not determined whether any has received enough signatures to appear on the ballot. The measures address a variety of social and political issues, but none currently appear likely to have a material and adverse effect on the financial condition of the Sewer System.

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

Overview

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 2014 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 2014 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 2014 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 2014 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 2014 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 2014 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 2014 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 2014 Bonds in order that interest on the 2014 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 2014 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 2014 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 2014 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 2014 Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a 2014 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 2014 Bonds.

Prospective owners of the 2014 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 2014 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 2014 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 2014 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 2014 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 2014 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 2014 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 2014 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 2014 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 2014 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 2014 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 2014 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 2014 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 2014 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 2014 Bonds under Federal or state law or otherwise prevent beneficial owners of the 2014 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 2014 Bonds. For example, the Fiscal Year 2015 Budget proposed on March 4, 2014 by the Obama Administration recommends a 28% limitation on “all itemized deductions, as well as other tax benefits” including “tax-exempt interest.” The net effect of such a proposal, if enacted into law, would be that an owner of a tax-exempt 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 tax-exempt bond. Similarly, on February 26, 2014, Dave Camp, Chairman of the United States

House Ways and Means Committee, released a discussion draft of a proposed bill which would significantly overhaul the Code, including the repeal of many deductions; changes to the marginal tax rates; elimination of tax-exempt treatment of interest for certain bonds issued after 2014; and a provision similar to the 28% limitation on tax-benefit items described above (at 25%) which, as to certain high income taxpayers, effectively would impose a 10% surcharge on their “modified adjusted gross income,” defined to include tax-exempt interest received or accrued on all bonds, regardless of issue date. Future legislation or actions could also impact the tax treatment of interest on the 2014 Bonds for state law purposes.

Prospective purchasers of the 2014 Bonds should consult their own tax advisors regarding the foregoing matters.

RATINGS

The 2014 Series A Bonds have been rated “Aa2” by Moody’s Investors Service and “AA” by Standard & Poor’s Ratings Services. The 2014 Series B Bonds have been rated “Aa3” by Moody’s Investors Service and “AA-” by Standard & Poor’s Ratings Services. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody’s Investors Service, Inc., 250 Greenwich Street, New York, New York, 10007; and Standard & Poor’s Ratings Services, 55 Water Street, New York, New York, 10041. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agency concerned, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of any such ratings may have an adverse effect on the market price of the 2014 Series A Bonds or the 2014 Series B 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.

FINANCIAL ADVISOR

The City has retained Public Financial Management, Inc. (“PFM”) to serve as its financial advisor in conjunction with the issuance of the 2014 Bonds. PFM is expected to assist and advise the city on matters relating to the sale and structuring of the bonds, disclosure, ratings, pre-marketing of the bonds, post-sale analysis and other tasks at the discretion of the City. PFM has not audited, authenticated or otherwise verified the information set forth in this Official Statement with respect to the accuracy and completeness of disclosure of such information, and no guaranty, warranty, or other representation is made by PFM respecting the accuracy and completeness of this Official Statement.

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the 2014 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 2014 Bonds, the Master First Lien Bond Ordinance, the 2014 Bond Declaration, and the authority to issue the 2014 Bonds conform to the 2014 Bonds and the applicable laws under which they are issued. The statements made in this Official Statement under the captions “THE 2014 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.

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 Sewer 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 Sewer 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 Sewer System.

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

The City is one of the potentially responsible parties funding and is conducting an investigation of contaminated sediments, assessing cleanup options and planning for restoration in this section of the river. The City’s potential liabilities are associated with stormwater discharges and with some City-owned upland properties. The City operates stormwater and CSO outfalls within the Portland Harbor area. The outfalls drain stormwater from City rights-of-way and from privately owned industrial, commercial, residential, and vacant lands.

The Bureau may be liable for a portion of the cleanup and restoration activities, as well as costs for restoration of natural resources. As described above, the total costs of cleanup and restoration, as well as allocation among parties, is undeterminable at this time, but could be material to the period in which it is realized. See “REGULATORY ENVIRONMENT-- PORTLAND HARBOR SEDIMENTS” herein.

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 City's Water Bureau and the Bureau 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 is vigorously defending the lawsuit and believes that it is unlikely that the plaintiffs will prevail on the majority of the claims alleged.

CERTIFICATE WITH RESPECT TO OFFICIAL STATEMENT

At the time of the original delivery of the 2014 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 2014 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 2014 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 2014 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 I for the benefit of the 2014 Bond holders.

The City has complied in all material respects with its agreements to provide continuing disclosure under the Rule during the last five years.

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 2014 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 2014 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

APPENDIX A
ADMINISTRATIVE RESTATEMENT OF THE
MASTER FIRST LIEN BOND ORDINANCE



ADMINISTRATIVE RESTATEMENT OF ORDINANCE NO. 160276 AND ITS AMENDMENTS

This document is an administrative restatement of the general provisions of City Ordinance No. 160276 that was enacted on November 18, 1987 and the amendments to the general provisions of City Ordinance No. 160276 that were enacted by Ordinance No. 165788 adopted September 2, 1992, by City Ordinance No. 166757 adopted July 21, 1993, by City Ordinance No. 167740 adopted June 8, 1994, by City Ordinance No. 170685 adopted on October 30, 1996, by City Ordinance No. 174679 adopted July 19, 2000, by City Ordinance No. 174862, adopted August 30, 2000, and by City Ordinance No. 177288 adopted by the City Council on March 5, 2003. Ordinance No. 160276, with its supplements and amendments, is referred to in this Administrative Restatement as the “Master First Lien Bond Ordinance.”

This administrative restatement was prepared for the convenience of potential purchasers of First Lien Bonds who wish to have a single document that contains the general provisions of the Master First Lien Bond Ordinance. This administrative restatement omits provisions of ordinances that authorized specific series of First Lien Bonds under City Ordinance No. 160276, as amended, that apply only to specific bond issues. In addition, section numbers have been altered and some of the defined terms used in this administrative restatement have been changed to enhance readability, reduce confusion and conform those terms to the terms used in the City’s Master Second Lien Sewer Bond Declaration.

A. Definitions.

As used in this Administrative Restatement, the following words shall have the following meanings:

1. “Administrative Restatement” means this administrative restatement of the general provisions of the Master First Lien Bond Ordinance.
2. “Average Annual Debt Service” on any proposed Parity First Lien Obligations to be issued shall mean the average annual amount of principal of and interest on such Parity First Lien Obligations calculated by dividing: (i) the total aggregate principal of, and interest on such Parity First Lien Obligations payable during the fiscal years that such Parity First Lien Obligations are projected to be outstanding, including any amounts of principal or interest required to be paid pursuant to any mandatory redemption schedule (but without crediting against any sum payable any interest capitalized from proceeds derived from the sale of such Parity First Lien Obligations) by (ii) the total fiscal years that such Parity First Lien Obligations are projected to be outstanding.
3. “First Lien Bonds” means the Series 1987 Bonds and any Parity First Lien Obligations subsequently issued in accordance with Section F of this Administrative Restatement.
4. “Charter” means the charter of the City, as amended.
5. “City” means the City of Portland, Oregon, a municipal corporation of the State of Oregon.
6. “Code” means the Internal Revenue Code of 1986, as amended.
7. “Council” means the council of the City.
8. “Debt Service” and “Actual Debt Service” on any First Lien Bonds that are or will be outstanding during each fiscal year, when used without any modifiers or additions, shall mean for purposes of any covenant, calculation, financial test or certification contained in or required by Section D. (Rate Covenant) and Section F. (Parity First Lien Obligations) hereof, the amount of principal of and interest on such First Lien Bonds required to be paid during the fiscal year in question, including any amounts of principal or interest required to be paid on such First Lien Bonds during such fiscal year pursuant to any mandatory redemption schedule; *provided, however, that* for purposes other than those specified above, there shall be credited against such sum any interest capitalized or otherwise payable from proceeds derived from the sale of such First Lien Bonds.
9. “Debt Service Account” means the Debt Service Account in the Redemption Fund referenced in section D.2 of this Administrative Restatement.
10. “Default” means any event described in section I.1 of this Administrative Restatement.

11. "Gross Revenues" means all fees, charges, installment loan contract payments and other amounts, including but not limited to the proceeds of DEQ Loans and any amounts received from the sale, factoring or other financing of installment loan contracts, received by the City from the operation of the Sewer System and the construction of Sewer System facilities and other improvements constituting an integral part of the Sewer System, except as specifically limited below. Gross Revenues also shall include (i) withdrawals from the Rate Stabilization Fund, (ii) any interest earnings on Gross Revenues, (iii) any interest earnings on other funds associated with the Sewer System, if the use of those earnings is not restricted to purposes inconsistent with the payment of debt service on First Lien Bonds. However, Gross Revenues does not include: (A) any installment loan contract payments received by the City for line and branch charges, connection fees or system development charges relating to installment loan contracts (i) which have been pledged by the City as security for a DEQ Loan or (ii) which have been sold, factored or pledged as security for, or with respect to, the financing of installment loan contracts; (B) the proceeds of any grants; (C) the proceeds of any borrowing for capital improvements (except the proceeds of a DEQ Loan or the proceeds of other financing of installment loan contracts); (D) the proceeds of any liability insurance; (E) the proceeds of any casualty insurance which the City intends to utilize for repair or replacement of the Sewer System; and (F) the proceeds from the sale of properties comprising the Sewer System.
12. "Master First Lien Bond Ordinance" means City Ordinance No. 160276, as amended as supplemented in accordance with its terms.
13. "Maximum Annual Debt Service" shall mean the maximum aggregate amount of principal and interest payable during any single fiscal year on all series of First Lien Bonds then outstanding and any Parity First Lien Obligations then proposed to be issued during the period for which such then outstanding First Lien Bonds and proposed Parity First Lien Obligations are projected to be outstanding, including any amounts of principal or interest required to be paid pursuant to any mandatory redemption schedule (but without crediting against the sum payable in any fiscal year any interest capitalized from proceeds derived from the sale of any series of First Lien Bonds).
14. "Net Revenues" means the Gross Revenues less the Operating Expenses.
15. "Operating Expenses" means all expenses incurred for operation, maintenance and repair of the Sewer System, including but not limited to administrative expenses, financial and auditing expenses, insurance premiums, claims (to the extent moneys are not available from proceeds of insurance, including, without limitation, claims for refunds, refund obligations or other claims against or relating to the Gross Revenues or fees and charges of the Sewer System, which claim or claims shall be paid solely from Gross Revenues of the Sewer System collected during the fiscal year within which payment of such claim or claims occurs), taxes, legal and engineering expenses relating to operation and maintenance, payments and reserves for pension, retirement, health, hospitalization, and sick leave benefits, including the portion of debt service on bonds or other obligations of the City paid or payable from Gross Revenues of the Sewer System, and incurred to pay or prepay such expenses on behalf of employees of the City working for the Bureau of Environmental Services or any successor agency or department of the City charged with the responsibility of operating, maintaining and administering the Sewer System, and any other similar expenses to be paid to the extent properly and directly attributable to operations of the Sewer System. Operating expenses also include payments to the Rate Stabilization Fund, and payments which have been designated Operating Expenses under section E.7(b) hereof. Operating Expenses do not include depreciation or any rebates paid from Gross Revenues under Section 148(f) of the Code. Operating Expenses further do not include: (i) expenditures made from any liability insurance proceeds; (ii) expenditures made from any casualty insurance proceeds used to pay for costs of repairing or replacing portions of the Sewer System; (iii) expenditures made from grant monies regardless of whether such grant funds are dedicated to a specific purpose or available for the general operation, maintenance and repair or replacement of the Sewer System; (iv) expenditures allocable to any other funding source which does not constitute Gross Revenues of the Sewer System; and, (v) franchise fees and similar charges imposed by the City on the Sewer System or its operations.
16. "Owner" or "Bondowner" means the registered owner of a First Lien Bond.
17. "Parity First Lien Obligations" means any revenue bonds or other revenue obligations of the City which comply with the provisions of section G of this Administrative Restatement for the issuance of Parity First Lien Obligations, and are payable from the Net Revenues on a parity of lien with the Series 1987 Bonds.
18. "Permitted Investments" means investments which the City may acquire under the laws of the State of Oregon.
19. "Rate Stabilization Fund" means the Rate Stabilization Fund established pursuant to section D.4 of this Administrative Restatement.

20. "Redemption Fund" means the Redemption Fund established pursuant to section D.1 of this Administrative Restatement by the City to hold funds to be used to pay First Lien Bond principal and interest.
21. "Required Reserve" means an amount equal to the lesser of: the maximum annual debt service on all outstanding First Lien Bonds; one hundred twenty-five percent of average annual debt service on all outstanding First Lien Bonds; or ten percent of the proceeds of all outstanding issues of First Lien Bonds (as the term "proceeds" is used in Section 148(d) of the Code).
22. "Reserve Account" means the Reserve Account in the Redemption Fund established pursuant to section D.3 of this Administrative Restatement.
23. "Reserve Equivalent" means an insurance policy, surety bond or letter of credit issued by a municipal bond insurance company or a commercial bank having a credit rating (when the policy, bond, or letter of credit is issued) of at least Aa or AA as determined by Moody's Investors Services or Standard & Poor's Corporation, or their successors, in which the insurance company or commercial bank agrees unconditionally to provide the City with funds for the payment of debt service on the Series 1987 Bonds and any obligations issued on a parity therewith pursuant to Section F of this Administrative Restatement. Each Reserve Equivalent must be unconditional and irrevocable, and either be in effect until the final maturity date of a series of bonds, or if it expires sooner, the City shall provide a substitute Reserve Equivalent or fund the Reserve Account with cash prior to the expiration date of the Reserve Equivalent.
24. "Series 1987 Bonds" means the first series of First Lien Bonds issued under the Master First Lien Bond Ordinance.
25. "Sewer System" or "System" means all real and personal property now or hereafter owned, operated, used, or maintained by the City for sewage disposal or sewage purification within or without the corporate limits of the City, including but not limited to, all methods of storm drainage, intercepting sewers, diversion sewers, relieving or interconnection sewers, sewers to separate storm and sanitary sewage, pump or ejector stations and equipment, and plants for treatment, processing and disposal of sewage.
26. "Subordinate Obligations" means any obligations of the City payable from Net Revenues which comply with the provisions of section H of this Administrative Restatement.

B. Pledge and Use of Revenues.

Pursuant to ORS 288.660, ORS 288.825, Section 12-201 of the City Charter of the City, and each other applicable authority, without distinction or difference relating to the source of authority, the City hereby pledges the Net Revenues and all money in the Redemption Fund equally and ratably to the payment of principal, interest and premium on all First Lien Bonds, and the payment of any amounts due under a Reserve Equivalent without distinction or difference as to any First Lien Bonds or series of First Lien Bonds. As long as any First Lien Bonds remain issued and outstanding, Gross Revenues shall be used solely to pay the following amounts in the following order of priority:

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

C. Creation of Funds and Accounts.

1. The Redemption Fund is hereby created, which shall be a separate fund or account for accounting purposes; money in the Redemption Fund may be commingled with other City money for investment purposes. The Redemption Fund shall contain a Debt Service Account and a Reserve Account. The City shall deposit into the Redemption Fund, solely from the Net Revenues, money sufficient to make timely payment of all First Lien Bond principal and interest when due.
2. The Debt Service Account is hereby created within the Redemption Fund. The City hereby covenants with the owners of the First Lien Bonds that it will, so long as any First Lien Bonds remain outstanding, make the following deposits from the Net Revenues into the Debt Service Account:
 - (a) Not less than five business days prior to a First Lien Bond interest payment date, the City will deposit into the Debt Service Account an amount equal to the amount necessary to pay all First Lien Bond interest due on that payment date. Prepayment of deposits will fulfill this requirement.
 - (b) Not less than five business days prior to a First Lien Bond principal payment date, the City will deposit into the Debt Service Account an amount equal to the amount necessary to pay all First Lien Bond principal and premium due on that payment date. Prepayment of deposits will fulfill this requirement.
3. The Reserve Account is hereby created within the Redemption Fund.
 - (a) Money in the Reserve Account will be used only to pay First Lien Bond principal or interest, and only in the event that money in the Debt Service Account is not sufficient to pay First Lien Bond principal and interest when due.
 - (b) The City covenants with the owners of the First Lien Bonds that it will maintain a balance in the Reserve Account at least equal to the Required Reserve. In the event the amount on deposit in the Reserve Account is less than the Required Reserve, the deficiency shall be eliminated by no more than twelve approximately equal monthly payments to the Reserve Account, with the first payment to be made no more than sixty days after the balance in the Reserve Account falls below the Required Reserve. In the event the amount on deposit in the Reserve Account is more than the Required Reserve, any such excess may be transferred out of the Reserve Account and used for any purposes for which the Gross Revenues may be used.
 - (c) The balance in the Reserve Account shall be deemed to include, in addition to cash deposits and bond proceeds, the amount available to be paid under any Reserve Equivalents.
 - (d) Money in the Reserve Account shall be invested in Permitted Investments. Permitted Investments shall be valued as of the first day of each fiscal year. Permitted Investments maturing in one year or less from the valuation day shall be valued at their face amount. Permitted Investments maturing in more than one year from the valuation date shall be valued at the lower of cost or market value.
4. The Rate Stabilization Fund is hereby created, which shall be a separate fund or account for accounting purposes; money in the Rate Stabilization Fund may be commingled with other City money for investment purposes. The City may make payments into the Rate Stabilization Fund from the Gross Revenues at any time. Money in the Rate Stabilization Fund may be withdrawn at any time and used for any purpose for which the Gross Revenues may be used.

D. Rate Covenant.

1. The City covenants that it will authorize, bill and collect fees and charges for the use of the Sewer System and operate the Sewer System so that after the funding of Operating Expenses for each fiscal year sufficient to cause the City to be in compliance with the covenants, standards and requirements of Section E.4 hereof:
 - (a) Net Revenues (without adjustment for payments to or withdrawals from the Rate Stabilization Fund) in each fiscal year are projected to be at least equal to the sum of all payments due under any Reserve Equivalent, plus all debt service due on outstanding First Lien Bonds in that fiscal year; and
 - (b) Net Revenues (after adjustments for payments to and withdrawals from the Rate Stabilization Fund) in each fiscal year are projected to be at least equal to the sum of all payments due under any Reserve Equivalent, plus 1.20 times the debt service on all outstanding First Lien Bonds due in that fiscal year.

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

E. General Covenants.

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

1. That it will, to the extent the Net Revenues are sufficient, promptly cause the principal and interest on the First Lien Bonds to be paid as they become due.
2. That it will maintain complete books and records relating to the operation of the Sewer System, the Gross Revenues, the Operating Expenses, the Redemption Fund, the Debt Service Account, the Reserve Account and the Rate Stabilization Fund, in accordance with generally accepted accounting principles, and will cause such books and records to be audited annually at the end of each fiscal year, and an audit report prepared and made available for the inspection of Bondowners.
3. That it will not issue First Lien Bonds or other obligations having a claim superior to the claim of the First Lien Bonds upon the Net Revenues, except as provided in section E.7.(b) of this Administrative Restatement.
4. The City shall cause the System to be operated at all times in a safe, sound, efficient and economic manner in compliance with all health, safety and environmental laws, regulatory body rules, regulatory body orders and court orders applicable to the City's operation and ownership of the System, and shall cause the System to be maintained, preserved, reconstructed, expanded and kept, with all appurtenances and every part and parcel thereof, in good repair, working order and condition, and shall from time to time cause to be made, without undue deferral, all necessary or proper repairs, replacements and renewals so that at all times the operation of the System shall be properly and advantageously conducted. The City shall not enter into any agreements to provide free service or services at a discount from published rate schedules except in case of emergency.
5. The covenants, representations and warranties contained in this Administrative Restatement, and any covenants, representations and warranties in the closing documents relating to each series of First Lien Bonds shall constitute contracts with the Owners of each series of First Lien Bonds, and shall be enforceable by them.
6. The City covenants to maintain insurance, or a reasonable system of self insurance, appropriate to the risks associated with operation of its Sewer System.
7. Sales, Leases and Encumbrances.
 - (a) The City may not sell or exchange or otherwise dispose of any property constituting a part of the Sewer System, except as provided in subsections (b) or (c) of this section, unless such property is either worn out or obsolete or, in the opinion of the City, is no longer useful in the operation of the Sewer System. Any proceeds of such sale, exchange or other disposition shall be used only for purposes for which the Gross Revenues may be used.
 - (b) The City may mortgage, grant security interests in, lease or otherwise encumber the Sewer System, provided that the aggregate annual payments required to be made from the Gross Revenues in connection with all such encumbrances shall not in any fiscal year exceed 25% of the Operating Expenses for such fiscal year. Payments required to be made in connection with such encumbrances shall be considered Operating Expenses if the City so designates in the documents evidencing the encumbrance.
 - (c) The City may also lease as lessor or make contracts or grant licenses for the operation of, or grant easements or other rights with respect to any part of the Sewer System if such lease, contract, license, easement or right does not, in the opinion of the City, impede the operation of the Sewer System.

F. Parity First Lien Obligations.

1. The City may issue obligations payable from the Net Revenues on a parity of lien with the Series 1987 Bonds (“Parity First Lien Obligations”) to provide funds for any purpose relating to the Sewer System which is authorized by law, but only upon the following conditions:
 - (a) No Default has occurred and is continuing.
 - (b) At the time of the issuance of the Parity First Lien Obligations there is no deficiency in the Debt Service Account or the Reserve Account.
 - (c) The ordinance authorizing the issuance of the Parity First Lien Obligations requires that the balance in the Reserve Account at closing is made equal to the Required Reserve for all outstanding First Lien Bonds, including the proposed Parity First Lien Obligations.
 - (d) The Ordinance authorizing the issuance of the Parity First Lien Obligations contains a covenant requiring the City to operate the Sewer System so that:
 - (i) Net Revenues (without adjustment for payments to or withdrawals from the Rate Stabilization Fund) in each fiscal year are projected to be at least equal to the sum of all payments due under any Reserve Equivalent, plus all debt service due on outstanding First Lien Bonds (including the proposed Parity First Lien Obligations) in that fiscal year; and
 - (ii) Net Revenues (after adjustments for payments to and withdrawals from the Rate Stabilization Fund) in each fiscal year are projected to be at least equal to the sum of all payments due under any Reserve Equivalent, plus 1.20 times the debt service due on all outstanding First Lien Bonds (including the proposed Parity First Lien Obligations) in that fiscal year.
 - (e) There is filed with the City Auditor the certificate of a qualified engineering, auditing or other consulting firm experienced in the preparation or review of financial forecasts and reports of municipal utility operations, to the effect that both (a) the Net Revenues (without regard to payments to or withdrawals from the Rate Stabilization Fund) for any of the 12 consecutive months during the 18 months preceding the issuance of the Parity First Lien Obligations are not less than 1.00 times maximum annual debt service on all outstanding First Lien Bonds and the proposed Parity First Lien Obligations; and (b) the Net Revenues, as projected for each of the next ensuing three fiscal years (including any planned rate increases) are not less than 1.20 times the sum of: Actual Debt Service on all outstanding First Lien Bonds in each respective fiscal year; plus, average annual debt service on the proposed Parity First Lien Obligations. In calculating Net Revenues under (a) of this subsection, Net Revenues may be adjusted for rate increases which have been adopted by the Council prior to the issuance of Parity First Lien Obligations. Such rate increases need not be in effect when the Parity First Lien Obligations are issued.
2. Notwithstanding the requirements of (a), (b), (c) (d) and (e) of subsection (1) of this section, the City may issue Parity First Lien Obligations to refund outstanding First Lien Bonds if the debt service in each year on the Parity First Lien Obligations does not exceed by more than \$5,000 the debt service on the First Lien Bonds being refunded.
3. All obligations issued in accordance with this section shall have a lien on the Net Revenues which is equal to the lien of the Series 1987 Bonds and all Parity First Lien Obligations issued in accordance with this section.

G. Subordinate Obligations.

1. The City may issue Subordinate Obligations for any purpose relating to the Sewer System which is authorized by law, provided no First Lien Bond Default has occurred and is continuing. All Subordinate Obligations shall have a lien on the Net Revenues which is subordinate to the lien of the Series 1987 Bonds and all Parity First Lien Obligations issued in accordance with section F of this Administrative Restatement.
2. In the event of any insolvency or bankruptcy proceedings relating to the City or to its property, the Owners of First Lien Bonds shall be entitled to receive payment in full of all principal, premium (if any) and interest thereon (including interest accruing after the commencement of any proceeding) before the holders of the Subordinate Obligations are entitled to receive any payment on account of principal, premium (if any) or interest upon the Subordinate Obligations.

H. Default.

1. The following events shall constitute Default:

- (a) Failure to pay First Lien Bond principal, interest or premium when due; or
- (b) Failure to perform any other obligation of the City imposed by the Master First Lien Bond Ordinance or the First Lien Bonds, but only if:
 - (i) the failure continues for a period of more than ninety (90) days after demand has been made on the City to remedy the failure by the Owners of at least twenty percent of the First Lien Bonds outstanding; and
 - (ii) the City fails to take reasonable steps to remedy the failure within that ninety-day period; or
- (c) Imposition of a receivership upon, or liquidation of, the Sewer System; or,
- (d) Written admission by the City that the City is unable to pay its debts as they become due.
- (e) Upon Default, any Bondowner may exercise any remedy available at law or in equity.

I. Amendment or Supplement of Ordinance.

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

- (a) To add to the covenants and agreements of the City in the Master First Lien Bond Ordinance any other covenants and agreements thereafter to be observed by the City, or to surrender any right or power herein reserved to or conferred upon the City, provided the City obtains an opinion of nationally recognized bond counsel that such amendment will not cause interest on tax-exempt First Lien Bonds to be includable in gross income for federal income tax purposes;
 - (b) To cure any ambiguity or formal defect contained in the Master First Lien Bond Ordinance, if that cure does not, in the judgment of the Council, adversely affect the interests of the Bondowners; and provided the City obtains an opinion of Nationally Recognized Bond Counsel that such amendment will not cause interest on tax-exempt First Lien Bonds to be includable in gross income for federal income tax purposes;
 - (c) To issue Parity First Lien Obligations in accordance with section F hereof;
 - (d) To issue Subordinate Obligations in accordance with section G hereof; and
 - (e) The Master First Lien Bond Ordinance may be amended for any other purpose only upon consent of the Owners of not less than fifty-one percent in aggregate principal amount of the First Lien Bonds outstanding; provided, however, that no amendment shall be valid without the consent of Owners of 100 percent of the aggregate principal amount of affected First Lien Bonds outstanding which:
 - (i) Extends the maturity of any First Lien Bond, reduces the rate of interest upon any First Lien Bond, extends the time of payment of interest on any First Lien Bond, reduces the amount of principal payable on any First Lien Bond, or reduces any premium payable on any First Lien Bond, without the consent of the affected Bondowner; or
 - (ii) Reduces the percentage of Owners required to approve an amendment to this Administrative Restatement.
2. If so provided in the documents authorizing series of First Lien Bonds, a municipal bond insurer may consent to amendments to the Master First Lien Bond Ordinance in lieu of, and without prior notice to, the registered owners of those First Lien Bonds.

J. Defeasance.

In the event that the City:

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

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

K. Credits Against Mandatory Redemption and Defeasance Obligation.

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

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



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

Section 1. Definitions.

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

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

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

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

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

“Audit” means the audit required by ORS 297.425.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- (i) The interest income or other earnings derived from the investment of the Rebate Fund or any escrow fund established for the defeasance or refunding of outstanding indebtedness of the City
- (ii) Installment loan contract payments received by the City for line and branch charges, connection fees, local improvement district assessments or system development charges that have been pledged as security for a borrowing through the City Auditor's Office or another City bureau which is separate from the Bureau of Environmental Services;
- (iii) Any gifts, grants, donations or other moneys received by the City from any State or Federal Agency or other person if such moneys are restricted by law or the grantor to uses inconsistent with the payment of Second Lien Bonds;
- (iv) The proceeds of any borrowing except borrowings that are described in clause (b) of this definition in connection with line and branch charges, connection fees, local improvement district assessments or system development charges;
- (v) The proceeds of any liability or other insurance (excluding business interruption insurance or other insurance of like nature insuring against the loss of revenues);
- (vi) The proceeds of any casualty insurance which the City intends to utilize for repair or replacement of the Sewer System;
- (vii) The proceeds derived from the sales of assets pursuant to Section 8.10 of this Master Declaration;
- (viii) Any ad valorem or other taxes imposed by the City (except charges or payments for Sewer System services which become “taxes” within the meaning of Article XI, Section 11b of the Oregon Constitution only because they are imposed on property or property owners);
- (ix) Any income, fees, charges, receipts, profits or other moneys derived by the City from its ownership or operation of any Separate Utility System.

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

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

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

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

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

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

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

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

“Operating Expenses” means all costs which are properly treated as expenses of operating and maintaining the Sewer System under generally accepted accounting principles, lease payments described in Section 4.7, any rebate of earnings on nonpurpose obligations in which the gross proceeds of First Lien Bonds are invested which is required to be paid under Section 148(f) of the Code, and transfers to the Rate Stabilization Fund that are permitted under Section 2.1.I. However, Operating Expenses do not include:

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

“ORS” means the Oregon Revised Statutes.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“Second Lien Bond Reserve Requirement” means, for any Series of Second Lien Bonds, the lesser of the greatest amount of principal, interest and premium, if any, required to be paid in any Fiscal Year on such Series; 125% of average amount of principal, interest and premium, if any, required to be paid on such Series during all Fiscal Years in which such Series will be Outstanding, calculated as of the date of issuance of such Series; or, ten percent of the proceeds of such Series, as “proceeds” is defined for purposes of Section 148(d) of the Code. However, the City may elect to fund the Second Lien Bond Reserve Requirement for any Series of Second Lien Bonds in equal annual installments over a period of five years, as provided in Section 3.3.K. If the City makes this election for a Series of Second Lien Bonds, the Second Lien Bond Reserve Requirement shall be reduced by any installments the City has elected to make, but which are not yet due to be deposited in the Second Lien Bond Reserve Account.

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

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

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

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

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

“State” means the State of Oregon.

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

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

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

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

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

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

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

A. At any time to pay Operating Expenses which are then due;

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

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

Section 3. Second Lien Bond Funds and Accounts.

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

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

3.3 **Second Lien Bond Reserve Account.** The City shall create a separate subaccount in the Second Lien Bond Reserve Account for each Series of Second Lien Bonds. Amounts credited to a subaccount the Second Lien Bond Reserve Account shall be used only to pay the Series of Second Lien Bonds for which the subaccount was created, and only if amounts in the Second Lien Bond Account and Net Revenues credited to other accounts in the Sewage Disposal Fund are insufficient.

- A. If, on any Payment Date the amounts on deposit in a subaccount of the Second Lien Bond Account are insufficient to pay the principal of, premium (if any) and interest due on the Series for which the subaccount was created, the City shall transfer Net Revenues in the Sewage Disposal Fund (other than amounts in the Second Lien Bond Reserve Account) to the Second Lien Bond Account in an amount equal to the deficiency. If the City is unable to make the transfer described by the preceding sentence, then the City shall transfer an amount equal to the deficiency from that Series' subaccount in the Second Lien Bond Reserve Account to the Second Lien Bond Account to pay that Series of Second Lien Bonds.
- B. Transfers subaccounts in the Second Lien Bond Reserve Account shall be applied first, to reimburse the Providers of any Reserve Credit Facilities that secure the Series for which the subaccount was created *pro rata* for amounts advanced under the Reserve Credit Facility; second, to replenish the balance in the subaccount with cash or Permitted Investments; and third to pay any other amounts owed under a Reserve Credit Facility that secures the Series for which the subaccount was created (including any interest, fees and penalties associated with any draw under a Reserve Credit Facility).
- C. If a transfer is made from a subaccount in the Second Lien Bond Reserve Account to the Second Lien Bond Account pursuant to Section 3.3.A, the City shall value the amounts in that subaccount as of the date of the transfer. If the transfer has reduced the balance in that subaccount below the amount the City is required to maintain in the Second Lien Bond Reserve Account, then beginning on the first day of the month that follows the Payment Date for which the transfer is made, the City shall make consecutive monthly transfers to that subaccount until the earlier of the date on which the City has restored the amount of the reduction, or that subaccount in the Second Lien Bond Reserve Account contains a balance that is equal to the Second Lien Bond Reserve Requirement for that subaccount. Each transfer required by this Section 3.3.C shall be at least equal to one twelfth of the reduction. The following examples illustrate this requirement. Example 1: The Second Lien Bond Reserve Requirement for a Series of Second Lien Bonds on July 1 is \$100, the subaccount in the Second Lien Bond Reserve Account for that Series of Second Lien Bonds has a balance of \$105 because the City has not transferred earnings out of that subaccount, and the City transfers \$29 from that subaccount to the Second Lien Bond Account. The transfer causes that subaccount to have a balance that is \$24 less than the amount the City is then required to maintain in that subaccount (the reduction is calculated by subtracting the \$5 surplus from the \$29 transfer). The City must make monthly transfers of \$2 to that subaccount beginning on August 1st. Example 2. The City makes the transfer described in Example 1, and commences making \$2 monthly transfers to that subaccount. On the next January 1st the City has deposited \$12 into that subaccount, so the balance in the that subaccount on January 1st is \$88, or \$12 less than the amount the City is required to maintain in that subaccount. On that January 1st, the City is required to make another transfer of \$12 to that subaccount. This transfer reduces the balance in that subaccount to \$76, and requires the City to make twelve monthly transfers of \$1 to that subaccount, beginning on February 1st. On February 1st, the City will be required to make one of the remaining six monthly transfers of \$2 that resulted from the July 1st transfer, and to start making twelve monthly transfers of \$1 because of the January 1st transfer. Assuming no other transactions in that subaccount of the Second Lien Bond Reserve Account, the balance in the Second that subaccount will again be equal to the Second Lien Bond Reserve Requirement for that subaccount on the following January 1st.
- D. If the value of a subaccount in the Second Lien Bond Reserve Account on a Valuation Date is less than the Second Lien Bond Reserve Requirement for that subaccount, and the deficiency is not due to a transfer from that subaccount to the Second Lien Bond Account pursuant to Section 3.3.A, then beginning on the first day of the month that follows the month in which the Valuation Date occurs, the City shall make consecutive monthly transfers to that subaccount in the Second Lien Bond Reserve Account until the City has restored the deficiency described in the first sentence of this Section 3.3.D or the balance in the Second Lien Bond Reserve Account is at least equal to the Second Lien Bond Reserve Requirement for that subaccount. Each transfer shall be at least equal to one fourth of the deficiency.
- E. If the value of the investments in a subaccount of the Second Lien Bond Reserve Account on a Valuation Date exceeds the Second Lien Bond Reserve Requirement for that subaccount, the City may transfer the excess to any account of the Sewage Disposal Fund.
- F. Moneys in the Second Lien Bond Reserve Account may be invested only in Permitted Investments that mature no later than the final maturity date of the Second Lien Bonds. Earnings on the Second Lien Bond Reserve Account shall be credited to the Second Lien Bond Reserve Account whenever the balance in that account is less than the Second Lien Bond Reserve Requirement. Otherwise earnings shall be credited to the Second Lien Bond Account.

- G. Whenever the City values the Second Lien Bond Reserve Account the City shall subtract from the value of the Permitted Investments and cash in the Second Lien Bond Reserve Account all amounts then owed under Reserve Credit Facilities, including any interest, fees and penalties associated with any draws under a Reserve Credit Facilities.
- H. Permitted Investments in the Second Lien Bond Reserve Account shall be valued on each Valuation Date in the following manner:
- (i) Demand deposits, deposits in the Oregon Short Term Fund and investments which mature in two years or less after the Valuation Date shall be valued at their face amount, plus accrued interest;
 - (ii) Investments which mature more than two years after the Valuation Date and for which bid and asked prices are published on a regular basis in the Wall Street Journal (or, if not there, then in the New York Times) shall be valued at the average of their most recently published bid and asked prices;
 - (iii) Investments which mature more than two years after the Valuation Date and for which the bid and asked prices are not published on a regular basis in the Wall Street Journal or the New York Times shall be valued at the average bid price quoted by any two nationally recognized government securities dealers (selected by the City in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service;
 - (iv) Reserve Credit Facilities shall be valued at the amount which is available to be drawn or paid under them;
 - (v) Certificates of deposit and bankers acceptances which mature more than two years after the Valuation Date shall be valued at their face amount, plus accrued interest; and
 - (vi) Any investment which is not specified above and which matures more than two years after the Valuation Date shall be valued at its fair market value as reasonably estimated by the City.
- I. Withdrawals from subaccounts in the Second Lien Bond Reserve Account shall be made in the following order of priority:
- (i) **First**, from any cash on deposit in that subaccount;
 - (ii) **Second**, from the liquidation proceeds of any Permitted Investments on deposit in that subaccount; and
 - (iii) **Third**, from moneys drawn or paid pro-rata under any Reserve Credit Facilities.
- J. All amounts on deposit in a subaccount of the Second Lien Bond Reserve Account may be applied to the final payment (whether at maturity, by prior Redemption or by means of a defeasance as provided in Section 11) of Outstanding Second Lien Bonds that are secured by that subaccount. Amounts so applied shall be credited against the amounts the City is required to transfer into the Second Lien Bond Account under Section 2.1.B.
- K. Any Supplemental Declaration authorizing the issuance of a Series of Second Lien Bonds shall require deposits into the subaccount in the Second Lien Bond Reserve Account for that Series in amounts sufficient to make the balance in the Second Lien Bond Reserve Account at least equal to the Second Lien Bond Reserve Requirement for that Series. The deposit required by this Section 3.3.K may be made in not more than five annual installments, with the final installment due not later than the fifth anniversary of the issuance of the Series of Second Lien Bonds. If the City elects to fund the portion of the Second Lien Bond Reserve Requirement which is allocable to a Series of Second Lien Bonds in installments, the election and the schedule for such deposits shall be stated prominently in the proceedings authorizing the Series of Second Lien Bonds.

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

Section 2.1.G. Earnings on the Subordinate Obligations Account shall be credited as provided in the proceedings authorizing the Subordinate Obligations.

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

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

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

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

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

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

4.5 The Estimated Average Interest Rate for Variable Rate Obligations shall be calculated as provided in this Section.

A. For purposes of calculating Combined Annual Debt Service for the rate covenants in Sections 4.2 and 4.3, the Estimated Average Interest Rate means the average BMA Index, expressed as an annualized interest rate, plus fifty basis points (0.50%), for the 52 week period that ends on or immediately before April 1 of the Fiscal Year that precedes the Fiscal Year in which that Estimated Average Interest Rate is used. For example: The City will determine the Estimated Average Interest Rate as of April 1, 2004, and that Estimated Average Rate shall be used to set the rates that are collected in the Fiscal Year 2004-2005 (the Fiscal Year that begins July 1, 2004) for all Variable Rate Obligations that are Outstanding during that Fiscal Year. At the beginning of Fiscal Year 2005-2006, the City will determine whether it complied with the rate covenants in Fiscal Year 2004-2005. The City will be deemed to have complied with the rate covenants in Fiscal Year 2004-2005 if the City collected Net Revenues that meet or exceed the requirements of Sections 4.2 and 4.3, using the Estimated Average Interest Rate calculated as of April 1, 2004.

B. For purposes of calculating Annual Second Lien Bond Debt Service and Combined Annual Debt Service for the tests for issuing Parity Second Lien Obligations in Section 5.1.D:

- (i) Unless Section 4.5.B(ii) applies, the Estimated Average Interest Rate for any Series of Variable Rate Obligations means the average of the weekly Bond Buyer 20 Bond Index for the 52 week period that ends on or immediately before the last day of the month that precedes the month in which the Parity Second Lien Obligations are sold, expressed as an annualized interest rate; or,
 - (ii) For any Series of Variable Rate Bonds that have been outstanding for at least 52 weeks at the end of the period described in Section 4.5.B(i), if the actual, annualized rate on that Series during that 52 week period is greater than the average, annualized rate described in Section 4.5.B(i), the Estimated Average Interest Rate for that Series means the average of the actual rates on that Series during that 52 week period, expressed as an annualized interest rate.
- C. For purposes of determining the Second Lien Bond Reserve Requirement, the Estimated Average Interest Rate for a Series of Parity Second Lien Obligations shall be the average of the weekly Bond Buyer 20 Bond Index for the 52 week period that ends on or immediately before the last day of the month that precedes the month in which the Parity Second Lien Obligations are sold, expressed as an annualized interest rate. This calculation of Estimated Average Interest Rate shall be used for that Series of Parity Second Lien Obligations as long as that Series of Parity Second Lien Obligations is Outstanding.

4.6 The Estimated Debt Service Requirement for Balloon Indebtedness shall be calculated in accordance with this Section 4.6.

- A. For the Rate Covenants: For each Balloon Payment that is Outstanding on May 1 of any Fiscal Year, the Debt Manager shall prepare a schedule of principal and interest payments for a hypothetical Series of Second Lien Bonds that refunds that Balloon Payment in accordance with Section 4.6.D. The Debt Manager shall prepare that schedule as of that first day of May, and, except as provided below in Section 4.6.E, that schedule shall be used to determine compliance with the rate covenants in Sections 4.2 and 4.3 for the following Fiscal Year.
- B. For Parity Second Lien Obligations: Whenever a Balloon Payment will be Outstanding on the date a Series of Parity Second Lien Obligations is issued, the Debt Manager shall prepare a schedule of principal and interest payments for a hypothetical Series of Second Lien Bonds that refunds each Outstanding Balloon Payment in accordance with this Section 4.6.D. The Debt Manager shall prepare that schedule as of the date the Parity Second Lien Obligations are sold, and, except as provided below in Section 4.6.E, that schedule shall be used to determine compliance with the tests for Parity Second Lien Obligations in Section 5.
- C. For the Second Lien Bond Reserve Requirement: Whenever a Series of Second Lien Bonds that contains a Balloon Payment is issued, the Debt Manager shall prepare a schedule of principal and interest payments for a hypothetical Series of Second Lien Bonds that refunds each Balloon Payment in that Series in accordance with this Section 4.6.C. The Debt Manager shall prepare that schedule as of the date the Series is sold, and that schedule shall be combined with the schedule for payment of any debt service on that Series that is not a Balloon Payment, and that combined schedule shall be used to determine the Second Lien Bond Reserve Requirement as long as that Series is Outstanding.
- D. Each hypothetical Series of refunding Second Lien Bonds shall be assumed to be paid in equal annual installments of principal and interest sufficient to amortize the principal amount of the Balloon Payment over the term selected by the Debt Manager; however, the Debt Manager shall not select a term that exceeds the lesser of 20 years from the date the Balloon Payment is originally scheduled to be paid or the City's estimate of the remaining weighted average useful life (expressed in years and rounded to the next highest integer) of the assets which are financed with the Balloon Payment. The annual installments shall be assumed to be due on the anniversaries of the date the Balloon Payment is originally scheduled to be paid, with the first installment due on the date the Balloon Payment is scheduled to be paid. The hypothetical Series of refunding Second Lien Bonds shall be assumed to bear interest at the Debt Manager's estimate of the average rate that a Series of Second Lien Bonds would bear if it is amortized as provided in this Section 4.6.D and is sold at the time the applicable schedule described in Section 4.6.A, Section 4.6.B or Section 4.6.C is prepared.
- E. For purposes of determining compliance with the rate covenants in Sections 4.2 and 4.3 for the Fiscal Year in which a Balloon Payment is actually due, and for purposes of determining compliance the tests for Parity Second Lien Obligations in Section 5 for any Parity Second Lien Obligations that are issued during the Fiscal Year in which a Balloon Payment is actually due, the full, unpaid amount of a Balloon Payment shall be assumed to be paid on the

date that payment is actually due, unless the City has in effect an irrevocable commitment to pay the Balloon Payment when it comes due from a Credit Facility Provider that is rated at least “P1” by Moody’s or “A1” by S&P.

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

Section 5. Parity Second Lien Obligations

5.1 The City may issue Parity Second Lien Obligations to provide funds for any purpose relating to the Sewer System, but only if:

- A. No Event of Default under this Master Declaration or any Supplemental Declaration has occurred and is continuing;
- B. At the time of the issuance of the Parity Second Lien Obligations there is no deficiency in the Second Lien Bond Account, and the balance in each subaccount of the Second Lien Bond Reserve Account is at least equal to the Second Lien Bond Reserve Requirement for that subaccount;
- C. The Supplemental Declaration authorizing the issuance of the Second Lien Bonds contains a covenant requiring the City to charge rates and fees in connection with the operation of the Sewer System which, when combined with other Gross Revenues, are adequate to satisfy the requirements of Section 4.2; and,
- D. There shall have been filed with the City either:
 - (i) A certificate of the Debt Manager stating that the Net Revenues (adjusted as provided in Section 5.2) for the Base Period were not less than one hundred ten percent (110.00%) of Maximum Combined Annual Debt Service on all then Outstanding First Lien Bonds and Second Lien Bonds, calculated as of the date the Parity Second Lien Obligations are issued and with the proposed Parity Second Lien Obligations treated as Outstanding; or
 - (ii) A certificate or opinion of a Qualified Consultant:
 - (a) stating the amount of the Adjusted Net Revenues computed as provided in Section 5.3 below for each of the four Fiscal Years after the last Fiscal Year for which interest on the Parity Second Lien Obligations is, or is expected to be, capitalized, or, if interest will not be capitalized, for each of the four Fiscal Years after the proposed Parity Second Lien Obligations are issued;
 - (b) concluding that the respective amounts of Adjusted Net Revenues in each of the Fiscal Years described in Section 5.1.D(ii)(a) are at least equal to one hundred ten percent (110.00%) of the Combined Annual Debt Service for each of those respective Fiscal Years on all Outstanding First Lien Bonds and Second Lien Bonds, with the proposed Parity Second Lien Obligations treated as Outstanding;
 - (c) stating the projected amount of the Adjusted Net Revenues for the fifth Fiscal Year after the last Fiscal Year for which interest on the Parity Second Lien Obligations is, or is expected to be, capitalized, or, if interest will not be capitalized, the fifth Fiscal Year after the Parity Second Lien Obligations are issued; and,
 - (d) concluding that this amount described in Section 5.1.D(ii)(c) is at least equal to one hundred ten percent (110.00%) of the Maximum Combined Annual Debt Service, calculated for the period beginning with that fifth Fiscal Year on all then Outstanding First Lien Bonds and Second Lien Bonds, with the proposed Parity Second Lien Obligations treated as Outstanding.

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

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

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

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

5.5 An Exchange Agreement may be a Parity Exchange Agreement and a Parity Second Lien Obligation if the obligation to make City Payments under the Exchange Agreement qualifies as a Parity Second Lien Obligation under Section 5.1, after the Reciprocal Payments under the Exchange Agreement are applied to reduce Combined Annual Debt Service. Any Parity Exchange Agreement shall clearly state that it is a Parity Exchange Agreement and has qualified as a Parity Second Lien Obligation under Section 5.1 of this Master Declaration. In addition, the City may replace a Parity Exchange Agreement with another Parity Exchange Agreement without qualifying the replacement Exchange Agreement under Section 6.1 if the replacement does not increase the Combined Annual Debt Service in any Fiscal Year by more than \$5,000.

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

Section 6. Subordinate Obligations.

The City may issue Subordinate Obligations only if:

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

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

Section 7. Separate Utility System.

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

Obligations to pay for costs of a Separate Utility System, and may pledge the revenues of the Separate Utility System to pay the Subordinate Obligations.

Section 8. General Covenants.

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

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

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

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

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

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

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

8.7 The City shall maintain the Sewer System in good repair, working order and condition.

8.8 The City shall not enter into any agreement to provide Sewer System products or services at a discount from published rate schedules, and that it will not provide free Sewer System products or services except in case of emergencies;

8.9 The City shall at all times maintain with responsible insurers all such insurance on the Sewer System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties.

A. The net proceeds of insurance against accident to or destruction of the Sewer System shall be used to repair or rebuild the damaged or destroyed Sewer System, and to the extent not so applied, will be applied to the payment or redemption of the Second Lien Bonds;

B. Insurance described in Section 8.9 shall be in the form of policies or contracts for insurance with insurers of good standing and shall be payable to the City, or in the form of self-insurance by the City. The City shall establish such fund or funds or reserves which it deems are necessary to provide for its share of any such self-insurance;

8.10 The City shall not, nor shall it permit others to, sell, mortgage, lease or otherwise dispose of or encumber all or any portion of the Sewer System except:

A. The City may dispose of all or substantially all of the Sewer System, only if the City pays all Second Lien Bonds or defeases them pursuant to Section 11.

B. Except as provided in Section 8.10.C, the City will not dispose of any part of the Sewer System in excess of 5% of the value of the Sewer System in service unless prior to such disposition either:

- (i) There has been filed with the City a certificate of a Qualified Consultant stating that such disposition will not impair the ability of the City to comply with the rate covenants contained in Section 4.1 of this Master Declaration; or
 - (ii) Provision is made for the payment, redemption or other defeasance of a principal amount of Second Lien Bonds equal to the greater of the following amounts:
 - (a) An amount which will be in the same proportion to the net principal amount of Second Lien Bonds then Outstanding (defined as the total principal amount of Second Lien Bonds then Outstanding less the amount of cash and investments in the Sinking Fund) that the Gross Revenues attributable to the part of the Sewer System sold or disposed of for the 12 preceding months bears to the total Gross Revenues for such period; or
 - (b) An amount which will be in the same proportion to the net principal amount of Second Lien Bonds then Outstanding that the book value of the part of the Sewer System sold or disposed of bears to the book value of the Sewer System immediately prior to such sale or disposition.
- C. The City may dispose of any portion of the Sewer System that has become unserviceable, inadequate, obsolete, or unfit to be used or no longer necessary for use in the operation of the Sewer System.
- D. If the ownership of all or part of the Sewer System is transferred from the City through the operation of law, the City shall to the extent authorized by law, reconstruct or replace such transferred portion using any proceeds of the transfer unless the City Council reasonably determines that such reconstruction or replacement is not in the best interest of the City and the Second Lien Bond Owners, in which case any proceeds shall be used for the payment, redemption or defeasance of the Second Lien Bonds.

Section 9. Events of Default and Remedies.

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

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

- A. If the City shall fail to pay any Second Lien Bond principal or interest when due, either at maturity, upon exercise of a right of tender, by proceedings for redemption or otherwise;
- B. Except as provided in Section 4.4 and 9.2.F, if the City shall default in the observance and performance of any other of its covenants, conditions and agreements in this Master Declaration, if such default continues for thirty (30) days after the City receives a written notice, specifying the Event of Default and demanding the cure of such default, from a Credit Provider, a committee of Second Lien Bond Owners or from the Owners of not less than 20% in aggregate principal amount of the Second Lien Bonds Outstanding;
- C. If the City shall sell, transfer, assign or convey any properties constituting the Sewer System in violation of Section 9.10;
- D. If an order, judgment or decree shall be entered by any court of competent jurisdiction:
 - (i) Appointing a receiver, trustee or liquidator for the City or the whole or any part of the Sewer System;
 - (ii) Approving a petition filed against the City seeking the bankruptcy, arrangement or reorganization of the City under any applicable law of the United States or the State; or

- (iii) Assuming custody or control of the City or of the whole or any part of the Sewer System under the provisions of any other law for the relief or aid of debtors and such order, judgment or decree shall not be vacated or set aside or stayed (or, in case custody or control is assumed by said order, such custody or control shall not be otherwise terminated) within sixty (60) days from the date of the entry of such order, judgment or decree; or
- E. If the City shall:
 - (i) Admit in writing its inability to pay its debts generally as they become due;
 - (ii) File a petition in bankruptcy or seeking a composition of indebtedness under any state or federal bankruptcy or insolvency law;
 - (iii) Consent to the appointment of a receiver of the whole or any part of the Sewer System; or
 - (iv) Consent to the assumption by any court of competent jurisdiction under the provisions of any other law for the relief or aid of debtors of custody or control of the City or of the whole or any part of the Sewer System.
- F. Exception. It shall not constitute an Event of Default under Section 9.2.B. if the default cannot practicably be remedied within thirty (30) days after the City receives notice of the default, so long as the City promptly commences reasonable action to remedy the default after the notice is received, and continues reasonable action to remedy the default until the default is remedied.
- G. Remedies. If an Event of Default occurs, any Second Lien Bond Owner may exercise any remedy available at law or in equity. However, the Second Lien Bonds shall not be subject to acceleration.
- H. Books of City Open to Inspection.
 - (i) The City covenants that if an Event of Default shall have happened and shall not have been remedied, the books of record and account of the City and all other records relating to the Sewer System shall at all reasonable times be subject to the inspection and use of the Second Lien Bond Owners Committee and any persons holding at least twenty percent (20%) of the principal amount of Outstanding Second Lien Bonds and their respective agents and attorneys.
 - (ii) The City covenants that if the Event of Default shall happen and shall not have been remedied, the City will continue to account, as a trustee of an express trust, for all Net Revenues and other moneys, securities and funds pledged under this Master Declaration.
- I. Waivers of Event of Default.
 - (i) No delay or omission of any Second Lien Bond Owner to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such Event of Default or to be an acquiescence therein; and every power and remedy given by this Section 9 to the Second Lien Bond Owners may be exercised from time to time and as often as may be deemed expedient by the Second Lien Bond Owners.
 - (ii) The owners of not less than fifty percent (50%) in principal amount of the affected Second Lien Bonds that are at the time Outstanding, or their attorneys-in-fact duly authorized, may, on behalf of the owners of all of affected Second Lien Bonds, waive any past default under this Master Declaration with respect to such Second Lien Bonds and its consequences, except a default in the payment of the principal of, premium, if any, or interest on any of the Second Lien Bonds. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon.
- J. Remedies Granted in Master Declaration Not Exclusive.

No remedy by the terms of this Master Declaration conferred upon or reserved to the Second Lien Bond Owners is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every

other remedy given under this Master Declaration or existing at law or in equity or by statute on or after the date of adoption of this Master Declaration.

Section 10. Amendment of Master Declaration.

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

- A. To cure any ambiguity or formal defect or omission in this Master Declaration;
- B. To add to the covenants and agreements of the City in this Master Declaration, other covenants and agreements to be observed by the City which are not contrary to or inconsistent with this Master Declaration as theretofore in effect;
- C. To authorize issuance of Second Lien Bonds or Subordinate Obligations;
- D. To authorize Parity Exchange Agreements, and specify the rights and duties of the parties to a Parity Exchange Agreement;
- E. To modify, amend or supplement this Master Declaration or any Supplemental Declaration to qualify this Master Declaration under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect or to permit the qualification of any Second Lien Bonds for sale under the securities laws of any of the states of the United States of America;
- F. To confirm, as further assurance, any security interest or pledge created under this Master Declaration or any Supplemental Declaration;
- G. To make any change which, in the reasonable judgment of the City, does not materially and adversely affect the rights of the owners of any Outstanding Second Lien Bonds;
- H. So long as a Credit Facility (other than a Reserve Credit Facility) is in full force and effect with respect to the Second Lien Bonds affected by such Supplemental Declaration, to make any other change which is consented to in writing by the issuer of such Credit Facility other than any change which:
 - (i) Would result in a downgrading or withdrawal of the rating then assigned to the affected Second Lien Bonds by the Rating Agencies;
 - (ii) Changes the maturity (except as permitted herein), the Interest Payment Dates, interest rates, redemption and purchase provisions, and provisions regarding notices of redemption and purchase applicable to the affected Second Lien Bonds or diminishes the security afforded by such Credit Facility;
 - (iii) Materially and adversely affects the rights and security afforded to the Owners of any Outstanding Second Lien Bonds not secured by such Credit Facility; or
 - (iv) To modify any of the provisions of this Master Declaration or any Supplemental Declaration in any other respect whatever, as long as the modification shall take effect only after all affected Outstanding Second Lien Bonds cease to be Outstanding.

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

- A. Extends the maturity of any Second Lien Bond, reduces the rate of interest upon any Second Lien Bond, extends the time of payment of interest on any Second Lien Bond, reduces the amount of principal payable on any Second Lien Bond, or reduces any premium payable on any Second Lien Bond, without the consent of the affected Second Lien Bond Owner; or

B. Reduces the percent of Second Lien Bond Owners required to approve Supplemental Declarations.

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

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

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

Section 11. Defeasance.

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

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

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

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

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

Section 12. BEO System.

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

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

12.3 In the event the Depository determines not to continue to act as securities depository for the Second Lien Bonds, or the City determines that the Depository shall no longer so act, then the City will discontinue the BEO system with the

Depository. If the City fails to designate another qualified securities depository to replace the Depository or elects to discontinue use of a BEO system, the Second Lien Bonds shall no longer be a BEO issue but shall be registered in the registration books maintained by the Registrar in the name of the Second Lien Bond Owner as appearing on the Second Lien Bond register and thereafter in the name or names of the Second Lien Bond Owners of the Second Lien Bonds transferring or exchanging Second Lien Bonds.

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

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

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

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

Section 13. Redemption of Second Lien Bonds.

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

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

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

13.4 So long as the BEO-System remains in effect with respect to the Second Lien Bonds, the City shall notify the Registrar of any early redemption not less than 40 days prior to the date fixed for redemption, the Registrar shall notify the Depository of any early redemption not less than 30 but no more than 60 days prior to the date fixed for redemption, and shall

provide such information in connection therewith as required by the letter of representations submitted to DTC in connection with the issuance of the Second Lien Bonds.

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

- A. The redemption date;
- B. The redemption price;
- C. If less than all Outstanding Second Lien Bonds are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the Second Lien Bonds to be redeemed;
- D. That on the redemption date the redemption price will become due and payable upon each such Second Lien Bond or portion thereof called for redemption, and that interest thereon shall cease to accrue from and after said date; and
- E. The place where such Second Lien Bonds are to be surrendered for payment of the redemption price, which place of payment shall be the principal office of the Registrar.

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

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

Section 14. Authentication, Registration and Transfer.

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

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

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

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

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

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

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

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

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

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

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

APPENDIX C
2014 FIRST LIEN BOND DECLARATION



BOND DECLARATION

City of Portland, Oregon

First Lien Sewer System Revenue Refunding Bonds

2014 Series A

Executed on behalf of the City of Portland, Oregon

As of the 14th day of August, 2014

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BOND DECLARATION

THIS BOND DECLARATION is executed as of August 14, 2014, on behalf of the City of Portland, Oregon by its Debt Manager pursuant to City Ordinance No. 186640 enacted by the City Council on June 11, 2014. That Ordinance authorizes the Debt Manager to execute a bond declaration to specify the terms under which the 2014 Series A Bonds are issued and the administrative provisions that apply to the 2014 Series A Bonds, and to provide any covenants that apply to the 2014 Series A Bonds that are not contained in the Master First Lien Sewer Revenue Bond Ordinance or the Ordinance.

Section 1. Definitions.

Unless the context clearly requires otherwise, capitalized terms that are used in this 2014 Series A Bond Declaration and are defined in this Section shall have the meanings defined for those terms in this Section 1, and capitalized terms that are used in this 2014 Series A Bond Declaration but are not defined in this Section 1 shall have the meanings defined for those terms in the Master First Lien Sewer Revenue Bond Ordinance.

“2014 Series A Bond Declaration” means this 2014 Series A Bond Declaration, including any amendments made in accordance with Section 6 of this 2014 Series A Bond Declaration.

“2014 Series A Bond Declaration” means this Bond Declaration.

“2014 Series A Bonds” means the City’s First Lien Sewer System Revenue Refunding Bonds, 2014 Series A, that are described in Section 3 of this 2014 Series A Bond Declaration.

“2014 Series A Reserve Equivalent” means the Municipal Bond Debt Service Reserve Insurance Policy issued by the Insurer to secure the Bonds.

“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.

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

“City” means the City of Portland, Oregon.

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

“Debt Manager” means the Debt Manager of the City, the City Treasurer, 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 declaration.

“DTC” means The Depository Trust Company, in New York, New York.

“Government Obligations” means direct non-callable obligations of the United States of America or noncallable obligations the principal of and interest on which are fully and unconditionally guaranteed as to timely payment by the United States of America.

“Insurer” means Assured Guaranty Municipal Corp..

“Master First Lien Sewer Revenue Bond Ordinance” means City Ordinance No. 160276, as it has been, and may in the future be, amended and supplemented in accordance with its terms. The Master First Lien Sewer Revenue Bond Ordinance specifies the terms under which the City may issue revenue bonds that are secured by a first lien on the Net Revenues of the City’s Sewer System.

“Ordinance” means City Ordinance No. 186640 which was enacted by the City Council on June 11, 2014, and which authorizes the execution of this 2014 Series A Bond Declaration and the issuance of the 2014 Series A Bonds.

“Outstanding” refers to all Bonds authorized and delivered pursuant to this 2014 Series A Bond Declaration except Bonds which have been paid, canceled, or defeased pursuant to the Master First Lien Sewer Revenue Bond Ordinance or Section 9 of this 2014 Series A Bond Declaration, and Bonds which have matured but have not been presented for payment for the payment of which adequate money has been transferred to the Paying Agent.

“Owner” or “Owners” means the person or persons shown on the 2014 Series A Bond register maintained by the Paying Agent as the registered owner of a 2014 Series A Bond.

“Paying Agent” means the registrar and paying agent for the 2014 Series A Bonds, which, at the time of execution of this 2014 Series A Bond Declaration, is U.S. Bank National Association.

“Record Date” means, for the 2014 Series A Bonds, the last business day of the month preceding the month in which each Interest Payment Date occurs.

“Related Documents” means the Master First Lien Sewer Revenue Bond Ordinance, the Ordinance and this 2014 Series A Bond Declaration.

Section 2. 2014 Series A Bonds as “Parity Obligations” under the Master First Lien Sewer Revenue Bond Ordinance.

The 2014 Series A Bonds are issued as “Parity Obligations” under Section 1.L(1) of the Master First Lien Sewer Revenue Bond Ordinance. Pursuant to Section 1.L(1)(i) of the Master First Lien Sewer Bond Ordinance I certify that no Default, as defined in that document, has occurred and is continuing under that document.

Section 3. Basic Terms of 2014 Series A Bonds.

- (1) The 2014 Series A Bonds shall be in the aggregate principal amount of \$86,165,000, shall be dated August __, 2014, shall bear interest which is payable on April 1 and October 1 of each year, commencing April 1, 2015, and shall mature on October 1 of the following years in the following principal amounts :

<u>Date</u> <u>(October 1)</u>	<u>Principal(\$)</u>	<u>Rate (%)</u>	<u>Date</u> <u>(October 1)</u>	<u>Principal (\$)</u>	<u>Rate (%)</u>
2015	6,805,000	5.00	2020	8,745,000	5.00
2016	7,160,000	5.00	2021	9,190,000	5.00
2017	7,525,000	5.00	2022	9,670,000	5.00
2018	7,915,000	5.00	2023	10,155,000	5.00
2019	8,320,000	5.00	2024	10,680,000	5.00

- (A) The 2014 Series A Bonds are not subject to redemption at the option of the City.
- (B) 2014 Series A Bond proceeds shall be used to refund the City’s Sewer System Revenue Bonds, 2004 Series A maturing in the years 2015 through 2024, to pay costs of the 2014 Series A Reserve Equivalent, and to pay other costs related to the 2014 Series A Bonds.

Section 4. Security for 2014 Series A Bonds.

- (1) The 2014 Series A Bonds are “Bonds” and “Parity Obligations” as defined in the Master First Lien Sewer Revenue Bond Ordinance. The 2014 Series A Bonds are special obligations of the City that are payable solely out of, and secured solely by a pledge of, the Net Revenues of the Sewer System, as defined and provided in the Master First Lien Sewer Revenue Bond Ordinance, and the funds and accounts established in the Master First Lien Sewer Revenue Bond Ordinance. Neither the full faith and credit nor the taxing powers of the City, the State of Oregon or any other political subdivision thereof is pledged to the payment of the principal of, premium (if any) or interest on the 2014 Series A Bonds. No Owner of any 2014 Series A Bond shall have the right to compel the City to exercise its taxing powers to pay any amounts owing under or with respect to the 2014 Series A Bonds.
- (2) The City shall apply the Net Revenues and other amounts that are pledged to pay the 2014 Series A Bonds as provided in the Master First Lien Sewer Revenue Bond Ordinance.
- (3) This 2014 Series A Bond Declaration shall constitute a contract with the Owners.

Section 5. Tax Covenants.

The City covenants with the owners of the 2014 Series A Bonds to use the proceeds of the 2014 Series A Bonds and to otherwise comply with the provisions of the Code so that interest paid on the 2014 Series A Bonds will not be includable in gross income of the Owners for federal income tax purposes. The City specifically covenants to comply with its obligations in the “tax certificate” that has been prepared in connection with the closing of the 2014 Series A Bonds.

Section 6. Book Entry System

The 2014 Series A Bonds shall be initially issued in BEO form and shall be governed by this Section 6. While 2014 Series A Bonds are in BEO form no physical 2014 Series A Bonds shall be provided to the Owners. A Blanket Issuer Letter of Representations (the “BLOR”) has been

executed by the City and delivered to DTC. While the 2014 Series A Bonds are in BEO form, registration and transfer of beneficial interests in the 2014 Series A Bonds shall be governed by the BLOR and the Operational Arrangements of DTC, as they may be amended from time to time, as provided in the BLOR. So long as 2014 Series A Bonds are in BEO form:

- (1) DTC shall be treated as the Owner for all purposes, including payment and the giving of notices to Owners of 2014 Series A Bonds. 2014 Series A Bond payments shall be made, and notices shall be given, to DTC in accordance with the BLOR. Any failure of DTC to advise any of its participants, or of any participant to notify the beneficial owner, of any such notice and its content or effect will not affect the validity of the redemption of 2014 Series A Bonds called for redemption or of any other action premised on such notice.
- (2) The City may discontinue maintaining the 2014 Series A Bonds in the BEO form at any time. The City shall discontinue maintaining the 2014 Series A Bonds in BEO form if DTC determines not to continue to act as securities depository for the 2014 Series A Bonds, or fails to perform satisfactorily as depository, and a satisfactory substitute depository cannot reasonably be found.
- (3) If the City discontinues maintaining the 2014 Series A Bonds in BEO form, the City shall cause the Paying Agent to authenticate and deliver replacement 2014 Series A Bonds in fully registered form in authorized denominations in the names of the beneficial owners or their nominees; thereafter the provisions set forth in Section 7 below, regarding registration, transfer and exchange of 2014 Series A Bonds shall apply.
- (4) The City and the Paying Agent shall have no responsibility or obligation to any participant or correspondent of DTC or to any beneficial owner on behalf of which such participants or correspondents act as agent for the beneficial owner with respect to:
 - (A) the accuracy of the records of DTC, the nominee or any participant or correspondent with respect to any beneficial owner's interest in the 2014 Series A Bonds;
 - (B) the delivery to any participant or correspondent or any other person of any notice with respect to the 2014 Series A Bonds, including any notice of prepayment;
 - (C) the selection by DTC of the beneficial interest in 2014 Series A Bonds to be redeemed prior to maturity; or
 - (D) the payment to any participant, correspondent, or any other person other than the registered owner of the 2014 Series A Bonds as shown in the registration books maintained by the Paying Agent, of any amount with respect to principal, any premium or interest on the 2014 Series A Bonds.
 - (E) The provisions of this Section 6 may be modified without the consent of the beneficial owners in order to conform this Section to the standard practices of DTC or any successor depository for 2014 Series A Bonds issued in BEO form.

Section 7. Authentication, Registration and Transfer.

- (1) No 2014 Series A Bond shall be entitled to any right or benefit under this 2014 Series A Bond Declaration unless it shall have been authenticated by an authorized officer of the Paying Agent. The Paying Agent shall authenticate all 2014 Series A Bonds to be delivered at closing of the 2014 Series A Bonds, and shall additionally authenticate all 2014 Series A Bonds properly surrendered for exchange or transfer pursuant to this 2014 Series A Bond Declaration.
- (2) The ownership of all 2014 Series A Bonds shall be entered in the 2014 Series A Bond register maintained by the Paying Agent, and the City and the Paying Agent may treat the person listed as owner in the 2014 Series A Bond register as the owner of the 2014 Series A Bond for all purposes.
- (3) While the 2014 Series A Bonds are in BEO form, the Paying Agent shall transfer 2014 Series A Bond principal and interest payments in the manner required by DTC.
- (4) If the 2014 Series A Bonds cease to be in BEO form, the Paying Agent shall mail each interest payment on the interest payment date (or the next Business Day if the payment date is not a Business Day) to the name and address of the Owners as they appear on the 2014 Series A Bond register as of the record date for the 2014 Series A Bonds. If payment is so mailed, neither the City nor the Paying Agent shall have any further liability to any party for such payment.
- (5) 2014 Series A Bonds may be exchanged for an equal principal amount of 2014 Series A Bonds of the same maturity which are in different denominations, and 2014 Series A Bonds may be transferred to other Owners if the Owner submits the following to the Paying Agent:
 - (A) written instructions for exchange or transfer satisfactory to the Paying Agent, signed by the Owner or attorney in fact and guaranteed or witnessed in a manner satisfactory to the Paying Agent and
 - (B) the 2014 Series A Bonds to be exchanged or transferred.
- (6) The Paying Agent shall not be required to exchange or transfer any 2014 Series A Bonds submitted to it during any period beginning with a record date and ending on the next following payment date; however, such 2014 Series A Bonds shall be exchanged or transferred promptly following that payment date.
- (7) The Paying Agent shall note the date of authentication on each 2014 Series A Bond. The date of authentication shall be the date on which the Owner's name is listed on the 2014 Series A Bond register.
- (8) For purposes of this Section 7, 2014 Series A Bonds shall be considered submitted to the Paying Agent on the date the Paying Agent actually receives the materials described in Section 7(5), above.

- (9) 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.

Section 8. Amendment of 2014 Series A Bond Declaration.

- (1) The City may amend this 2014 Series A Bond Declaration without the consent of any Owner for any one or more of the following purposes:
- (A) To cure any ambiguity or formal defect or omission in this 2014 Series A Bond Declaration;
 - (B) To add to the covenants and agreements of the City in this 2014 Series A Bond Declaration other covenants and agreements to be observed by the City which are not contrary to or inconsistent with this 2014 Series A Bond Declaration as theretofore in effect;
 - (C) To confirm, as further assurance, any security interest or pledge created under this 2014 Series A Bond Declaration or any supplemental bond declaration;
 - (D) To make any change which, in the reasonable judgment of the City, does not materially and adversely affect the rights of the Owners.
- (2) This 2014 Series A Bond Declaration may be amended for any other purpose only upon consent of Owners representing not less than fifty-one percent (51%) in aggregate principal amount of the adversely affected 2014 Series A Bonds then Outstanding. However, no amendment shall be valid, without the consent of Owners representing not less than one hundred percent (100%) in aggregate principal amount of 2014 Series A Bonds then Outstanding, which:
- (A) Extends the maturity of any 2014 Series A Bonds, reduces the rate of interest upon any 2014 Series A Bonds, extends the time of payment of interest on any 2014 Series A Bonds, reduces the amount of principal payable on any 2014 Series A Bonds, or reduces any premium payable on any 2014 Series A Bonds, without the consent of the affected Owner; or
 - (B) Reduces the percent of Owners required to approve amendments to this 2014 Series A Bond Declaration.

Section 9. Defeasance.

The City shall be obligated to pay 2014 Series A Bonds which are defeased pursuant to this Section solely from money and Government Obligations that are deposited with the escrow agent or paying agent, and the City shall have no further obligation to pay the defeased 2014 Series A Bonds from any source except the amounts deposited in the escrow. 2014 Series A Bonds shall be deemed defeased if the City:

- (1) irrevocably deposits money or noncallable Government Obligations in escrow with an independent paying agent or escrow agent which are calculated to be sufficient for the payment of 2014 Series A Bonds which are to be defeased; and
- (2) files with the escrow agent or paying agent an opinion from an independent, certified public accountant to the effect that the money and the principal and interest to be received from the Government Obligations are calculated to be sufficient, without further reinvestment, to pay the defeased 2014 Series A Bonds when due; and
- (3) files with the escrow agent or paying agent an opinion of nationally recognized bond counsel that those defeased 2014 Series A Bonds are no longer outstanding and the proposed defeasance will not cause the interest component of the 2014 Series A Bonds to be includable in gross income under the Code.

Section 10. Form.

The 2014 Series A Bonds shall be issued in substantially the form attached to this 2014 Series A Bond Declaration as Appendix A, with any changes that are approved by the Debt Manager. The 2014 Series A Bonds shall be executed on behalf of the City with the facsimile signatures of the Mayor and the Auditor of the City.

Section 11. Rules of Construction.

In determining the meaning of provisions of this 2014 Series A Bond Declaration, the following rules shall apply unless the context clearly requires application of a different meaning:

- (1) References to section numbers shall be construed as references to sections of this 2014 Series A Bond Declaration.
- (2) References to one gender shall include all genders.
- (3) References to the singular shall include the plural, and references to the plural shall include the singular.

Section 12. Provisions Related to the 2014 Series A Reserve Equivalent.

- (1) As described below, City shall repay any draws under the 2014 Series A Reserve Equivalent and pay all related reasonable expenses incurred by the Insurer but solely from Net Revenues that are available for such purpose pursuant to Section 1(F)(3) of the Master First Lien Sewer Revenue Bond Ordinance. The 2014 Series A Reserve Equivalent is a Reserve Equivalent under the Master First Lien Sewer Revenue Bond Ordinance.
- (2) The Insurer shall be entitled to exercise the rights in this 2014 Series A Bond Declaration only while the 2014 Series A Reserve Equivalent is in effect and the Insurer is not in default under the 2014 Series A Reserve Equivalent. If the 2014 Series A Reserve Equivalent is not in effect or the Insurer is in default under the 2014 Series A Reserve Equivalent, the Insurer shall have no rights to notice or consent, among the others rights,

outlined in this 2014 Series A Bond Declaration. The rights granted to the Insurer in this Section shall not extend to any other Owner.

- (3) "Authorizing Documents" means the Master First Lien Sewer Revenue Bond Ordinance and this 2014 Series A Bond Declaration.
- (4) Upon any payment by the Insurer under the 2014 Series A Reserve Equivalent, the Insurer shall furnish to the City written instructions as to the manner in which payment of amounts owed to the Insurer as a result of such payment under the 2014 Series A Reserve Equivalent shall be made. Amounts drawn under the 2014 Series A Reserve Equivalent shall be used solely to pay scheduled payments of principal and interest due on the Bonds secured by the Reserve Account. Any amounts owed to the Insurer by the City under the 2014 Series A Reserve Equivalent shall be payable solely from Net Revenues that are available for such purpose pursuant to Section 1(F)(3) of the Master First Lien Sewer Revenue Bond Ordinance.
- (5) The City shall pay the Insurer the principal amount of any draws under the 2014 Series A Reserve Equivalent and pay all related reasonable expenses incurred by the Insurer and shall pay interest thereon from the date of payment by the Insurer at the Late Payment Rate. "Late Payment Rate" means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in the City of New York, as its prime or base lending rate ("Prime Rate") (any change in such Prime Rate to be effective on the date such change is announced by JPMorgan Chase Bank) plus 5%, and (ii) the then applicable highest rate of interest on the Bonds and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. In the event JPMorgan Chase Bank ceases to announce its Prime Rate, the Prime Rate shall be the prime or base lending rate of such national bank as the Insurer shall designate. If the interest provisions of this Section 2 shall result in an effective rate of interest which, for any period, exceeds the limit of the usury or any other laws applicable to the indebtedness created herein, then all sums in excess of those lawfully collectible as interest for the period in question shall, without further agreement or notice between or by any party hereto, be applied as additional interest for any later periods of time when amounts are outstanding hereunder to the extent that interest otherwise due hereunder for such periods plus such additional interest would not exceed the limit of the usury or such other laws, and any excess shall be applied upon principal immediately upon receipt of such moneys by the Insurer, with the same force and effect as if the City had specifically designated such extra sums to be so applied and the Insurer had agreed to accept such extra payment(s) as additional interest for such later periods. In no event shall any agreed-to or actual exaction as consideration for the amounts due hereunder exceed the limits imposed or provided by the law applicable to this transaction for the use or detention of money or for forbearance in seeking its collection.
- (6) Repayment of draws and payment of expenses and the interest accrued thereon at the Late Payment Rate (collectively, "Policy Costs") shall commence in the first month following each draw, and each such monthly payment shall be in an amount at least equal

to 1/12th of the aggregate of Policy Costs related to such draw. Amounts in respect of Policy Costs paid to the Insurer shall be credited first to interest due, then to the expenses due and then to principal due. The timing of payments in this subsection 6 shall not be affected by any amendments to the Master First Lien Sewer Revenue Bond Ordinance described in Section 13(10).

- (7) As and to the extent that payments are made to the Insurer on account of principal due, the coverage under the 2014 Series A Reserve Equivalent will be increased by a like amount, subject to the terms of the Reserve Policy.
- (8) All cash and investments in the Reserve Account shall be transferred to the Debt Service Account for payment of debt service on the Bonds before any drawing may be made on the 2014 Series A Reserve Equivalent or on any alternative credit instrument. Payment of any Policy Costs shall be made prior to replenishment of any such cash amounts pursuant to Section 1(F) of the Master First Lien Sewer Revenue Bond Ordinance. Draws on all alternative credit instruments (including the 2014 Series A Reserve Equivalent) on which there is available coverage shall be made on a pro rata basis (calculated by reference to available coverage under each such alternative credit instrument) after applying available cash and investments in the Reserve Account. Payment of Policy Costs and reimbursement of amounts with respect to alternative credit instruments shall be made on a pro-rata basis prior to replenishment of any cash drawn from the Reserve Account. For the avoidance of doubt, “available coverage” means the coverage then available for disbursement pursuant to the terms of the applicable alternative credit instrument without regard to the legal or financial ability or willingness of the provider of such instrument to honor a claim or draw thereon or the failure of such provider to honor any such claim or draw.
- (9) If the City shall fail to pay any Policy Costs in accordance with the requirements of the Authorizing Documents and 2014 Series A Reserve Equivalent, the Insurer shall be entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Authorizing Documents, other than (i) acceleration of the maturity of the Bonds or (ii) remedies which would adversely affect owners of the Bonds.
- (10) The Authorizing Documents shall not be discharged until all Policy Costs owing to the Insurer shall have been paid in full. The City's obligation to pay such amounts shall expressly survive payment in full of the Bonds.
- (11) In order to secure the City's payment obligations with respect to the Policy Costs, there is hereby granted and perfected in favor of the Insurer a pledge pursuant to ORS 287A.310 of the Net Revenues described in Section 1(F)(3) of the Master First Lien Sewer Revenue Bond Ordinance.
- (12) Policy Costs due and owing shall be included in debt service requirements for purposes of calculation of the additional bonds test and the rate covenant in the Authorizing Documents.
- (13) The Paying Agent shall ascertain the necessity for a claim upon the 2014 Series A Reserve Equivalent in accordance with the provisions of subsection 8 hereof and shall

provide notice to the Insurer in accordance with the terms of the 2014 Series A Reserve Equivalent at least five business days prior to each date upon which interest or principal is due on the Bonds.

- (14) To the extent permitted by law, the City will pay or reimburse the Insurer, but solely from the sources described in this Section, any and all reasonable charges, fees, costs, losses, liabilities and expenses which the Insurer may pay or incur, including, but not limited to, reasonable fees and expenses of attorneys, accountants, consultants and auditors and reasonable costs of investigations, in connection with (i) any accounts established to facilitate payments under the 2014 Series A Reserve Equivalent, (ii) the administration, enforcement, defense or preservation of any rights in respect of the Authorizing Documents or any other document executed in connection with the Bonds (the “Related Documents”), including defending, monitoring or participating in any litigation or proceeding (including any bankruptcy proceeding in respect of the City) relating to the Authorizing Documents, or any other Related Document, any party to the Authorizing Documents or any other Related Document or the transactions contemplated by the Related Documents, (iii) the foreclosure against, sale or other disposition of any collateral securing any obligations under the Authorizing Documents or any other Related Document, if any, or the pursuit of any remedies under the Authorizing Documents or any other Related Document, to the extent such costs and expenses are not recovered from such foreclosure, sale or other disposition, (iv) any amendment, waiver or other action with respect to, or related to the Authorizing Documents, the 2014 Series A Reserve Equivalent or any other Related Document whether or not executed or completed, or (v) any action taken by the Insurer to cure a default or termination or similar event (or to mitigate the effect thereof) under the Authorizing Documents or any other Related Document; costs and expenses shall include a reasonable allocation of compensation and overhead attributable to time of employees of the Insurer spent in connection with the actions described in clauses (ii)-(v) above. The Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Authorizing Documents or any other Related Document. Amounts payable by the City hereunder shall bear interest at the Late Payment Rate from the date such amount is paid or incurred by the Insurer until the date the Insurer is paid in full.
- (15) The obligation of the City to pay all amounts due hereunder and under the 2014 Series A Reserve Equivalent is a limited special obligation of the City payable solely from the Net Revenues described in this Section, but otherwise shall be an absolute and unconditional obligation of the City and will be paid or performed strictly in accordance herewith, irrespective of (i) any lack of validity or enforceability of or any amendment or other modifications of, or waiver with respect to the Bonds, the Authorizing Documents or any other Related Document, or (ii) any amendment or other modification of, or waiver with respect to the 2014 Series A Reserve Equivalent; (iii) any exchange, release or non-perfection of any security interest in property securing the Bonds, the Authorizing Documents or any other Related Documents; (iv) whether or not such Bonds are contingent or matured, disputed or undisputed, liquidated or unliquidated; (v) any amendment, modification or waiver of or any consent to departure from the 2014 Series A Reserve Equivalent, the Authorizing Documents or all or any of the other Related

Documents; (vi) the existence of any claim, setoff, defense (other than the defense of payment in full), reduction, abatement or other right which the City may have at any time against the Paying Agent or any other person or entity other than the Insurer, whether in connection with the transactions contemplated herein, in the Authorizing Documents or in any other Related Documents or any unrelated transactions; (vii) any statement or any other document presented under or in connection with the 2014 Series A Reserve Equivalent proving in any and all respects invalid, inaccurate, insufficient, fraudulent or forged or any statement therein being untrue or inaccurate in any respect; or (viii) any payment by the Insurer under the Reserve Policy against presentation of a certificate or other document which does not strictly comply with the terms of the 2014 Series A Reserve Equivalent.

- (16) The City shall fully observe, perform, and fulfill each of the provisions (as each of those provisions may be amended, supplemented, modified or waived) of the Authorizing Documents applicable to it, each of the provisions thereof being incorporated herein by reference as if set forth directly herein. No provision of the Authorizing Documents or any other Related Document shall be amended, supplemented, modified or waived in a manner that could materially adversely affect the priority accorded to the reimbursement of Policy Costs under the Authorizing Documents or pursuant to 1(Q)(2)(i)-(ii) of the Master First Lien Sewer Revenue Bond Ordinance, without the prior written consent of the Insurer. However, the Insurer acknowledges it has given consent to the springing amendments contained in Section 13 of this 2014 Series A Bond Declaration and that it has no right to consent to those amendments. The Insurer is hereby expressly made a third party beneficiary of the Authorizing Documents and each other Related Document.
- (17) The City covenants to provide to the Insurer, promptly upon request, any information regarding the Bonds or the financial condition and operations of the City as reasonably requested by the Insurer. The City will permit the Insurer to discuss the affairs, finances and accounts of the City or any information the Insurer may reasonably request regarding the security for the Bonds with appropriate officers of the City and will use commercially reasonable efforts to enable the Insurer to have access to the facilities, books and records of the City on any business day upon reasonable prior notice.
- (18) Notices to the Insurer shall be sent to the following address (or such other address as the Insurer may designate in writing): Assured Guaranty Municipal Corp., 31 West 52nd Street, New York, New York 10019, Attention: Managing Director– Surveillance, Re: Policy No. _____.

Section 13. Reservation of Right to Make Subsequent Amendments.

In addition to the rights the City has reserved in the Master First Lien Sewer Revenue Bond Ordinance to amend the Master First Lien Sewer Revenue Bond Ordinance, the City reserves the right to make any or all of the amendments to the Master First Lien Sewer Revenue Bond Ordinance that are described in this Section 13 without the consent of the Owners of the 2014 Series A Bonds. By purchasing 2014 Series A Bonds each Owner shall be deemed to have consented to any or all of the amendments described in this Section 13.

- (1) Amendments that reduce the debt service due on First Lien Bonds by the amount of federal interest subsidies that are actually received or are reasonably expected to be received for First Lien Bonds that are issued as Build America Bonds or similar obligations that are eligible for federal interest subsidies, but solely for purposes of:
 - (A) Calculating the Required Reserve, Maximum Annual Debt Service and Average Annual Debt Service;
 - (B) Calculating compliance with the rate covenants in the Master First Lien Sewer Revenue Bond Ordinance; and,
 - (C) Calculating the ability of the City to issue Parity First Lien Obligations.
- (2) Amendments that pledge federal interest subsidies for Build America Bonds and similar obligations to pay First Lien Bonds, but exclude those subsidies from “Gross Revenues” so that the subsidies are not both added to Gross Revenues and applied to reduce debt service due on First Lien Bonds.
- (3) Amendments that exclude non-cash expenses and extraordinary, non-recurring expenditures from the definition of “Operating Expenses.”
- (4) Amendments allowing debt service on obligations that finance Operating Expenses to be treated as Operating Expenses.
- (5) Amendments allowing the City to establish separate subaccounts in the Reserve Account that secure one or more Series of First Lien Bonds that are issued after the 2014 Series A Bonds.
- (6) Amendments allowing the City to determine the reserve requirement for subaccounts in the First Lien Bond Reserve Account that secure First Lien Bonds that are issued after the 2014 Series A Bonds.
- (7) Amendments clarifying that the ratings requirements for a Reserve Equivalent apply only at the time the Reserve Equivalent is issued.
- (8) Amendments clarifying that a Reserve Equivalent continues to be valued at the amount that is available to be drawn on it unless: Net Revenues in a fiscal year are below 150% of the debt service on all outstanding First Lien Bonds that is due in that fiscal year, and all ratings on the provider of the Reserve Equivalent and its reinsurers or guarantors are either withdrawn or reduced below investment grade.
- (9) Amendments specifying that a Reserve Equivalent shall have no value during any fiscal year when the Net Revenues are below 150% of the debt service on all outstanding First Lien Bonds that is due in that fiscal year, and all ratings on the provider of that Reserve Equivalent and its reinsurers or guarantors are either withdrawn or reduced below investment grade.

- (10) Amendments allowing the City to replenish the Reserve Account or any subaccount in the Reserve Account over five years, if that account or subaccount has a deficiency because the Reserve Equivalent has no value as a result of Section 13(9).
- (11) Amendments clarifying that the City may issue Parity First Lien Obligations when the Reserve Account or a subaccount in the Reserve Account contains an amount that is less than its reserve requirement, but only if all required deposits to replenish the account or subaccount have been made when the Parity First Lien Obligations are issued.
- (12) Amendments conforming related provisions of the Master First Lien Sewer Revenue Bond Ordinance to the amendments that are authorized by this Section 13, and restating the Master First Lien Sewer Revenue Bond Ordinance to include all its amendments through the date of restatement.
- (13) Amendments: (i) allowing the City to determine whether it complied with the rate covenants for the First Lien Bonds for each Fiscal Year not later than sixty (60) days after the beginning of the subsequent Fiscal Year, based on the financial information available to the City at that time; (ii) stating that compliance with those rate covenants may be determined based on that financial information; and (iii) stating that a failure to comply with those rate covenants will not constitute a Default if, within 120 days after the beginning of the subsequent Fiscal Year, the City implements the recommendations of a Qualified Consultant that is engaged by the City to deliver written recommendations for a schedule of rates and charges or other actions which the Qualified Consultant reasonably projects will permit the City to comply with those rate covenants for the remainder of the Fiscal Year in which the recommendations are delivered to the City (with calculations for the partial year made on an annualized basis). For purposes of this amendment, “Qualified Consultant” may be defined as 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.
- (14) Amendments that facilitate the City’s administration and payment of First Lien Bonds by conforming the definitions and other provisions of the Master First Lien Sewer Revenue Bond Ordinance to the definitions and provisions of the Amended Master Second Lien Sewer System Revenue and Refunding Bond Declaration executed on June 19, 2003, as that declaration has been, and may in the future be, amended and supplemented in accordance with its terms, but only if those amendments do not, in the judgment of the Council, materially and adversely affect the interests of the owners of First Lien Bonds.

- (15) Amendments that convert the substantive provisions of the Master First Lien Sewer Revenue Bond Ordinance into a master first lien sewer revenue bond declaration that may be amended with the approval of the City Council but without the enactment of an ordinance amending the Master First Lien Sewer Revenue Bond Ordinance.

Dated as of the 14th day of August, 2014.

City of Portland, Oregon

By: _____
Debt Manager

Appendix A
Form of 2014 Series A Bond

No. R-«BondNumber»

\$«PrincipalAmtNumber»

United States of America
State of Oregon
Counties of Multnomah, Washington and Clackamas
City of Portland
First Lien Sewer System Revenue Refunding Bond
2014 Series A

Dated Date: August 14, 2014

Interest Rate Per Annum: «CouponRate»%

Maturity Date: October 1, «MaturityYear»

CUSIP Number: 736742«CUSIPNumbr»

Registered Owner: -----Cede & Co.-----

Principal Amount: -----«PrincipalAmtSpelled» Dollars-----

The City of Portland, 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 described below, the Principal Amount indicated above on the Maturity Date indicated above together with interest thereon from the date hereof at the Interest Rate Per Annum indicated above, computed on the basis of a 360-day year of twelve 30-day months. Interest is payable semiannually on the first day of April and the first day of October in each year until maturity, commencing April 1, 2015. Payment of each installment of interest shall be made to the Registered Owner hereof whose name appears on the registration books of the City maintained by the City's paying agent and registrar, which is currently U.S. Bank National Association (the "Paying Agent"), as of the last business day of the month immediately preceding the applicable interest payment date. For so long as this 2014 Series A Bond is subject to a book-entry-only system, principal and interest payments shall be paid in same day funds on each payment date to the nominee of the securities depository for the 2014 Series A Bonds. On the date of issuance of this 2014 Series A Bond, the securities depository for the 2014 Series A Bonds is The Depository Trust Company, New York, New York, and Cede & Co. is the nominee of The Depository Trust Company. Such payments shall be made payable to the order of "Cede & Co."

This 2014 Series A Bond is one of a duly authorized series of bonds aggregating \$86,165,000 in principal amount designated as First Lien Sewer System Revenue Refunding Bonds, 2014 Series A (the "2014 Series A Bonds"). The 2014 Series A Bonds are issued to refund the City's Sewer System Revenue Bonds, 2004 Series A maturing in the years 2015 through 2024, to pay costs of the 2014 Series A Reserve Equivalent, and to pay other costs related to the 2014 Series A Bonds as provided in Ordinance No. 186640 of the City enacted on June 11, 2014 (the "Ordinance"). The 2014 Series A Bonds are issued under and pursuant to City Ordinance No. 160276, as amended, supplemented and clarified by subsequent ordinances (the "Master First Lien Sewer Revenue Bond Ordinance") and the Ordinance and 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 terms and administrative provisions for the 2014 Series A Bonds are specified in the 2014 Series A Bond Declaration that was executed by the City's Debt Manager on behalf of the City as of August 14, 2014 (the "2014 Series A Bond Declaration").

The 2014 Series A Bonds constitute valid and legally binding special obligations of the City. The 2014 Series A Bonds are payable solely from the Net Revenues of the City's sewer system and the reserves and other funds that are pledged to pay "Bonds" and "Parity Obligations" as defined and provided in the Master First Lien Sewer Revenue Bond Ordinance, the Ordinance and the 2014 Series A Bond Declaration. This 2014 Series A Bond is not a general obligation of the City of Portland or any other government. Neither the full faith and credit nor the taxing powers of the City, the State of Oregon or any other political subdivision thereof is pledged to the payment of the principal of, premium (if any) or interest on the 2014 Series A Bonds. No Owner of any 2014 Series

A Bond shall have the right to compel the City to exercise its taxing powers to pay any amounts owing under or with respect to the 2014 Series A Bonds.

The City has issued other obligations that have a lien on the Net Revenues as permitted by the Master First Lien Sewer Revenue Bond Ordinance, and expects to issue such obligations in the future. In addition, the City has issued obligations that are secured by a subordinate lien on the Net Revenues.

The 2014 Series A Bonds are initially issued as a book-entry-only security issue with no certificates provided to the beneficial owners. Records of ownership of beneficial interests in the 2014 Series A Bonds will be maintained by The Depository Trust Company and its participants.

Should the book-entry only security system be discontinued, the 2014 Series A Bonds shall be issued in the form of registered bonds without coupons in denominations of \$5,000 or any integral multiple thereof. Such bonds may be exchanged for bonds of the same aggregate principal amount, interest rate and maturity date, but different authorized denominations, as provided in the 2014 Series A Bond Declaration.

The 2014 Series A Bonds are not subject to optional redemption.

Any exchange or transfer of this 2014 Series A Bond must be registered, as provided in the Master First Lien Sewer Revenue Bond Ordinance, upon the bond register kept for that purpose by the Paying Agent. The exchange or transfer of this 2014 Series A Bond may be registered only by surrendering it, together with a written instrument of exchange or transfer which is satisfactory to the Paying Agent and which is executed by the registered owner or duly authorized attorney. Upon registration, a new registered 2014 Series A Bond or 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 First Lien Sewer Revenue Bond Ordinance. The City and the Paying Agent may treat the person in whose name this 2014 Series A Bond is registered on the bond register as its absolute owner for all purposes, as provided in the Master First Lien Sewer Revenue Bond Ordinance.

This 2014 Series A Bond shall remain in the Paying Agent's custody subject to the provisions of the FAST Balance Certificate Agreement currently in effect between the Paying Agent and DTC.

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 2014 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 and the Charter of the City; and that the issue of which this 2014 Series A Bond is a part, and all other obligations of the City, are within every debt limitation and other limit prescribed by such Constitution and Statutes and City Charter.

IN WITNESS WHEREOF, the Council of the City of Portland, Oregon, by ordinance duly passed, has caused this 2014 Series A Bond to be signed by facsimile signature of its Mayor and countersigned by facsimile signature of its Auditor, and has caused a facsimile of the corporate seal of the City to be imprinted hereon, all as of the 14th day of August, 2014.



City of Portland, Oregon

Charlie Hales, Mayor

LaVonne Griffin-Valade, Auditor

THIS 2014 Series A BOND SHALL NOT BE VALID UNLESS PROPERLY AUTHENTICATED BY THE REGISTRAR IN THE SPACE INDICATED BELOW.

This 2014 Series A Bond is one of a series of \$86,165,000 aggregate principal amount of City of Portland, Oregon, First Lien Sewer System Revenue Refunding Bonds, 2014 Series A, issued pursuant to the Ordinance described herein.

Date of authentication: August 14, 2014.

U.S. Bank National Association, as Paying Agent

Authorized Officer

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned sells, assigns and transfers unto _____

(Please insert social security or other identifying number of assignee)

this Bond and does hereby irrevocably constitute and appoint _____ as attorney to transfer this Bond on the books kept for registration thereof with the full power of substitution in the premises.

Dated: _____

NOTICE: The signature to this assignment must correspond with the name of the registered owner as it appears upon the face of this Bond in every particular, without alteration or enlargement or any change whatever.

NOTICE: Signature(s) must be guaranteed by a member of the New York Stock Exchange or a commercial bank or trust company

Signature Guaranteed

(Bank, Trust Company or Brokerage Firm)

Authorized Officer

The following abbreviations, when used in the inscription on the face of this Bond, shall be construed 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

_____ CUST UL OREG _____ MIN
as custodian for (name of minor)

OR UNIF TRANS MIN ACT

under the Oregon Uniform Transfer to Minors Act

Additional abbreviations may also be used though not in the list above.

APPENDIX D
2014 SECOND LIEN SUPPLEMENTAL BOND DECLARATION



SUPPLEMENTAL BOND DECLARATION

City of Portland, Oregon

Second Lien Sewer System Revenue Bonds

2014 Series B

Executed on behalf of the City of Portland, Oregon

As of the 14th of August, 2014

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S U P P L E M E N T A L B O N D D E C L A R A T I O N

THIS SUPPLEMENTAL BOND DECLARATION is executed as of August __, 2014, by the Debt Manager of the City of Portland, Oregon pursuant to the authority granted to the “Debt Manager” by City Ordinance No. 186640 enacted by the City Council on June 11, 2014. That Ordinance authorizes the Debt Manager to execute a bond declaration to specify the terms under which the 2014 Series B Bonds are issued and the administrative provisions that apply to the 2014 Series B Bonds, and to provide any covenants that apply to the 2014 Series B Bonds that are not contained in the Master Declaration or the Ordinance.

Section 1. Definitions

Unless the context clearly requires otherwise, capitalized terms that are used in this 2014 Series B Bond Declaration and are defined in this Section 1 shall have the meanings defined for those terms in this Section 1, and capitalized terms that are used in this 2014 Series B Bond Declaration but are not defined in this Section 1 shall have the meanings defined for those terms in the Master Declaration.

“2014 Series B Bond Declaration” means this Supplemental Bond Declaration.

“2014 Series B Bonds” means the City’s Second Lien Sewer System Revenue Bonds, 2014 Series B issued pursuant to Section 2 of this 2014 Series B Bond Declaration.

“2014 Series B Reserve Subaccount” means the subaccount in the Second Lien Bond Reserve Account as described in Section 4.

“Master Declaration” means the Amended Master Second Lien Sewer System Revenue and Refunding Bond Declaration executed on June 19, 2003 as it has been, and may in the future be, amended and supplemented in accordance with its terms.

“Master First Lien Sewer Revenue Bond Ordinance” means City Ordinance No. 160276, as it has been, and may in the future be, amended and supplemented in accordance with its terms. The Master First Lien Sewer Revenue Bond Ordinance specifies the terms under which the City may issue revenue bonds that are secured by a first lien on the Net Revenues of the City’s Sewer System.

“Ordinance” means City Ordinance 186640 which was enacted by the City Council on June 11, 2014, and which authorizes the execution of this 2014 Series B Bond Declaration and the issuance of the 2014 Series B Bonds.

“System Improvements” means capital assets of the Sewer System, including construction, replacement, rehabilitation or other improvements to real and personal property owned, operated, used, or maintained by the City for sewage disposal or sewage purification within or without the corporate limits of the City, including but not limited to, all methods of storm drainage, intercepting sewers, diversion sewers, relieving or interconnection sewers, sewers to separate

storm and sanitary sewage, pump or ejector stations and equipment, and plants for treatment, processing and disposal of sewage.

Section 2. 2014 Series B Bonds as “Parity Second Lien Obligations” under the Master Declaration.

- 2.1. The 2014 Series B Bonds shall be “Second Lien Bonds” and “Parity Second Lien Obligations” as defined in the Master Declaration.
- 2.2. The City will charge rates and fees in connection with the operation of the Sewer System, which, when combined with other Gross Revenues, but without regard to transfers from and to the Rate Stabilization Fund, are adequate to generate Net Revenues each Fiscal Year at least equal to one hundred percent (100%) of Combined Annual Debt Service due in that Fiscal Year.
- 2.3. Pursuant to Section 6 of the Master Declaration I certify that:
 - A. No Event of Default under the Master Declaration or any Supplemental Declaration has occurred and is continuing; and
 - B. There is no deficiency in the Second Lien Bond Account and all transfers to the Second Lien Bond Reserve Account that are required by the Master Declaration to be made on or before the date of issuance of the 2014 Series B Bonds have been made.

Section 3. Basic Terms of the 2014 Series B Bonds.

3.1. Pursuant to the authority of Oregon Revised Statutes Section 287A.150, the Ordinance and this 2014 Series B Bond Declaration, the City has issued its Second Lien Sewer System Revenue Bonds, 2014 Series B, in the aggregate principal amount of \$204,220,000. The 2014 Series B Bonds shall bear interest payable on April 1 and October 1 of each year, commencing April 1, 2015, shall mature in the following years in the following principal amounts, and shall bear interest at the following rates per annum, calculated on the basis of a 360 day year consisting of twelve months of thirty days:

<u>Date</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount (\$)</u>	<u>Interest Rate</u> <u>(%)</u>
2015	4,460,000	5.00
2016	4,690,000	5.00
2017	4,930,000	5.00
2018	5,185,000	5.00
2019	5,450,000	5.00
2020	5,730,000	5.00
2021	6,025,000	5.00
2022	6,330,000	5.00
2023	6,655,000	5.00
2024	7,000,000	5.00
2025	7,355,000	5.00
2026	7,735,000	5.00
2027	8,050,000	3.00
2028	8,295,000	3.00
2029	8,590,000	4.00
2030	8,940,000	4.00
2031	9,305,000	4.00
2032	9,685,000	4.00
2033	10,080,000	4.00
2034	10,490,000	4.00
2035	10,920,000	4.00
2036	11,365,000	4.00
2037	11,830,000	4.00
2038	12,310,000	4.00
2039	12,815,000	4.00

3.2. 2014 Series B Bond proceeds shall be used to fund System Improvements, to fund the 2014 Series B Reserve Subaccount as described in Section 4.2 below, and to pay costs of issuing the 2014 Series B Bonds.

Section 4. 2014 Series B Reserve Subaccount

4.1. The City shall create the 2014 Series B Reserve Subaccount when the 2014 Series B Bonds are issued. The 2014 Series B Reserve Subaccount shall secure the 2014 Series B

Bonds. Except as specifically provided in this Section 4, amounts credited to the 2014 Series B Reserve Subaccount shall be used only to pay principal, interest and premium on the 2014 Series B Bonds, and only if amounts in the Second Lien Debt Service Account are not sufficient to make those payments. The City hereby irrevocably pledges the amounts that are credited to the 2014 Series B Reserve Subaccount to pay the 2014 Series B Bonds. Pursuant to ORS 287A.325, this pledge shall be valid and binding from the Closing date of the 2014 Series B 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.

- 4.2. At Closing of the 2014 Series B Bonds, the City shall deposit into the 2014 Series B Reserve Subaccount an amount equal to the Second Lien Bond Reserve Requirement. The deposit may be made from 2014 Series B Bond proceeds, or from Net Revenues or other amounts available to the City, or may be in the form of one or more Reserve Credit Facilities.
- 4.3. If the Master Declaration is amended to permit the City to establish subaccounts in the Second Lien Bond Reserve Account that secure multiple Series of Second Lien Bonds, the City reserves the right to issue additional Series of Second Lien Bonds that are secured by the 2014 Series B Reserve Subaccount, but only if the City is obligated to maintain a balance in the 2014 Series B Reserve Subaccount that is at least equal to the 2014 Series B Reserve Subaccount Requirement, as defined in Section 4.6.
- 4.4. If the Master Declaration is amended to permit the City to determine the reserve requirement for subaccounts in the Second Lien Bond Reserve Account, the City reserves the right to amend this 2014 Series B Bond Declaration to reduce the reserve requirement for the 2014 Series B Reserve Subaccount. However, the City shall not reduce the reserve requirement for the 2014 Series B Reserve Subaccount or any subaccount into which the 2014 Series B Reserve Subaccount is combined below the 2014 Series B Reserve Subaccount Requirement, as defined in Section 4.6.
- 4.5. If the Master Declaration is amended to permit the City to combine subaccounts in the Second Lien Bond Reserve Account, the City reserves the right to amend this 2014 Series A Bond Declaration and combine the 2014 Series B Reserve Subaccount with other subaccounts in the Second Lien Bond Reserve Account.
- 4.6. For purposes of Section 4.4, the following terms shall have the following meanings:
 - A. “2014 Series B Reserve Subaccount Bonds” means the 2014 Series B Bonds and any other Series of Second Lien Bonds that the City elects to secure with the 2014 Series B Reserve Subaccount.
 - B. “2014 Series B Reserve Subaccount Requirement” means an amount equal to the lesser of: (a) one-half of the greatest amount of principal, interest and premium, if any, required to be paid on 2014 Series B Reserve 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 2014 Series B Reserve Subaccount Bonds are scheduled to be paid, and recalculated whenever 2014 Series B Reserve 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 2014 Series B Reserve 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 2014 Series B Reserve 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 2014 Series B Reserve Subaccount Requirement shall mean the 2014 Series B Reserve Subaccount Requirement in effect immediately prior to the issuance of that Series, plus the Tax Maximum for that Series.

- C. “Tax Maximum” means, for any Series of 2014 Series B Reserve Subaccount Bonds, the lesser of the following, calculated as of the date a Series of 2014 Series B Reserve 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 5. Redemption of 2014 Series B Bonds.

- 5.1. The 2014 Series B Bonds maturing on or after October 1, 2025, are subject to redemption at the option of the City on October 1, 2024, and on any date thereafter, in any order of maturity and by lot within a maturity, at a price of par, plus interest accrued to the date fixed for redemption.
- 5.2. In the case of any redemption of less than all of the outstanding 2014 Series B Bonds, the City shall have the right to specify the particular maturities to be redeemed and the aggregate principal amounts of each such maturity to be redeemed.
- 5.3. While the 2014 Series B Bonds are in BEO form the City shall give notice to DTC as provided in the rules and procedures of DTC. However, the City shall not be required to give DTC notice of redemption more than twenty days prior to the redemption date.
- 5.4. Any notice of optional redemption may state that the optional redemption will not occur if the City fails to provide the paying agent with moneys sufficient to pay the redemption price of the 2014 Series B Bonds that are being redeemed, or that the redemption will not occur if any other condition that is specified in the notice occurs. If a conditional notice of redemption is given and the City will not redeem 2014 Series B Bonds, the paying agent shall give notice to owners of the 2014 Series B that were to be redeemed as promptly as practicable.

Section 6. Security for 2014 Series B Bonds.

The 2014 Series B Bonds shall be special obligations of the City. The 2014 Series B Bonds shall be “Second Lien Bonds” and “Parity Second Lien Obligations” as defined in the Master

Declaration, and shall be payable solely from the Net Revenues and amounts required to be deposited in the Second Lien Bond Account and Second Lien Bond Reserve Account as required and as provided by the Master Declaration. Neither the full faith and credit nor the taxing powers of the City, the State of Oregon or any other political subdivision thereof is pledged to the payment of the principal of, premium (if any) or interest on the 2014 Series B Bonds. No Owner of any 2014 Series B Bond shall have the right to compel the City to exercise its taxing powers to pay any amounts owing under or with respect to the 2014 Series B Bonds.

Section 7. Form of 2014 Series B Bonds.

The 2014 Series B 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.

Section 8. Tax-Exempt Status of 2014 Series B Bonds

The City covenants with the owners of the 2014 Series B Bonds to use the proceeds of the 2014 Series B Bonds and to otherwise comply with the provisions of the Code so that interest paid on the 2014 Series B Bonds will not be includable in gross income of the Owners for federal income tax purposes. The City specifically covenants to comply with its obligations in the “tax certificate” that has been prepared in connection with the closing of the 2014 Series B Bonds.

Section 9. Reservation of Right to Make Subsequent Amendments.

In addition to the rights the City has reserved under Section 11 of the Master Declaration, the City reserves the right to make any or all of the amendments to the Master Declaration that are described in this Section 9 without the consent of the Owners of the 2014 Series B Bonds. By purchasing 2014 Series B Bonds each Owner shall be deemed to have consented to any or all of the amendments described in this Section 9.

- 9.1. Amendments that reduce Annual Second Lien Bond Debt Service by the amount of any federal interest subsidies for Second Lien Bonds that are issued as Build America Bonds or similar obligations that are eligible for federal interest subsidies.
- 9.2. Amendments that reduce Combined Annual Debt Service by the amount of any federal interest subsidies for First Lien Bonds that are issued as Build America Bonds or similar obligations that are eligible for federal interest subsidies.
- 9.3. Amendments that pledge federal interest subsidies for Build America Bonds and similar obligations to pay Second Lien Bonds, but exclude those subsidies from “Gross Revenues” so that the subsidies are not both added to Gross Revenues and applied to reduce annual debt service.
- 9.4. Amendments excluding non-cash expenses and extraordinary, non-recurring expenditures from the definition of “Operating Expenses.”
- 9.5. Amendments allowing debt service on obligations that finance Operating Expenses to be treated as Operating Expenses.

- 9.6. Amendments allowing the City to establish subaccounts in the Second Lien Bond Reserve Account that secure multiple Series of Second Lien Bonds.
- 9.7. Amendments allowing the City to determine the reserve requirement for subaccounts in the Second Lien Bond Reserve Account.
- 9.8. Amendments allowing the City to combine subaccounts in the Second Lien Bond Reserve Account.
- 9.9. Amendments clarifying that the ratings requirements for a Reserve Credit Facility Provider would apply only at the time the Reserve Credit Facility is issued.
- 9.10. Amendments clarifying that a Reserve Credit Facility continues to be valued at the amount that is available to be drawn on it unless: Net Revenues are below 130% of Combined Annual Debt Service, and all ratings on the Reserve Credit Facility Provider and its reinsurers or guarantors are either withdrawn or reduced below investment grade.
- 9.11. Amendments specifying that a Reserve Credit Facility shall have no value when the Net Revenues are below 130% of Combined Annual Debt Service, and all ratings on the Reserve Credit Facility Provider and its reinsurers or guarantors are either withdrawn or reduced below investment grade.
- 9.12. Amendments allowing the City to replenish a subaccount in the Second Lien Bond Reserve Subaccount over five years, if that subaccount has a deficiency because the Reserve Credit Facility has no value because of circumstances described in Section 9.11.
- 9.13. Amendments clarifying that the City may issue additional Second Lien Bonds when a subaccount in the Second Lien Bond Reserve Account contains an amount that is less than its reserve requirement, but only if all required deposits to replenish the subaccount have been made when the Second Lien Bonds are issued.
- 9.14. When all First Lien Bonds are paid or defeased, amendments that remove any references to the First Lien Bonds, replace references to Combined Annual Debt Service with references to Annual Second Lien Bond Debt Service, change all references to Second Lien Bonds to “First Lien Bonds”, and make related, conforming changes.
- 9.15. Amendments to the Master First Lien Sewer Revenue Bond Ordinance of the type described in Section 13 of the 2014 Series A Bond Declaration that is dated as of August 14, 2014, and that was executed in connection with the issuance of the City’s First Lien Sewer System Revenue Refunding Bonds, 2014 Series A.

- 9.16. Amendments conforming related provisions of the Master Declaration to the amendments that are authorized by Section 9 and by Section 11 of the Master Declaration, and restating the Master Declaration to include all of those amendments.

Dated as of the 14th day of August, 2014.

City of Portland, Oregon

By: _____
B. Jonas Biery, Debt Manager

Exhibit A

Form of 2014 Series B Bond

No. R-«BondNumber»

\$«PrincipalAmtNumber»

United States of America
State of Oregon
Counties of Multnomah, Washington and Clackamas
City of Portland
Second Lien Sewer System Revenue Bond, 2014 Series B

Dated Date: August 14, 2014

Interest Rate Per Annum: «CouponRate»%

Maturity Date: October 1, «MaturityYear»

CUSIP Number: 736742«CUSIPNumbr»

Registered Owner: -----Cede & Co.-----

Principal Amount: -----«PrincipalAmtSpelled» 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 April 1, 2015. Principal and interest payments shall be received by Cede & Co., as nominee of The Depository Trust Company, or its registered assigns, as of the fifteenth day of the 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 2014 Series B Bond is not a general obligation or liability of the City, and is payable solely from the Net Revenues of the Sewer System as provided in the Amended and Restated Master Second Lien Sewer System Revenue and Refunding Bond Declaration dated June 19, 2003 as amended and supplemented (the “Master Declaration”), including the supplemental bond declaration executed as of August 14, 2014 (the “2014 Series B Bond Declaration”). The City covenants and agrees with the owner of this 2014 Series B Bond that it will keep and perform all of the covenants in this 2014 Series B Bond, the 2014 Series B Bond Declaration, and in the Master Declaration. The City has pledged the Net Revenues of the Sewer System to the payment of principal and interest on this 2014 Series B Bond. The lien of the pledge that secures this 2014 Series B Bond is subordinate to the lien on the Sewer System revenues that secures obligations that the City has issued, and may issue in the future to refund currently outstanding First Lien Bonds, under the City Ordinance No. 160276, as it may be amended from time to time in accordance with the terms of the Master Declaration (the “First Lien Bond Ordinance”).

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. The Bonds are subject to conditional notice of redemption. 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 2014 Series B Bonds called for redemption not less than 20 days prior to the date fixed for redemption. If the book-entry-only system is discontinued, the Registrar and the City shall provide for an alternative system of providing notice of redemption and such other matters as need to be updated for the 2014 Series B Bonds that is of general acceptance in the municipal bond markets. However, any failure to give notice shall not invalidate the redemption of the Bonds.

The 2014 Series B Bonds are initially issued as a book-entry-only security issue with no certificates provided to the 2014 Series B Bondowners. Records of 2014 Series B Bond ownership will be maintained by the Registrar and The Depository Trust Company and its participants.

Should the book-entry-only security system be discontinued, the 2014 Series B Bonds shall be issued in the form of registered 2014 Series B Bonds without coupons in the denominations of \$5,000 or any integral multiple thereof. Such 2014 Series B Bonds may be exchanged for 2014 Series B Bonds of the same aggregate principal amount, but different authorized denominations, as provided in the Master Declaration.

Any transfer of this 2014 Series B Bond must be registered, as provided in the Master Declaration, upon the 2014 Series B Bond register kept for that purpose by the Registrar. Upon registration, a new registered 2014 Series B Bond or 2014 Series B 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 2014 Series B Bond is registered as its absolute owner for all purposes, as provided 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 2014 Series B Bond is one of a series of \$204,220,000 aggregate principal amount of Second Lien Sewer Revenue Bonds, 2014 Series B, of the City, and is issued by the City for the purpose of financing improvements to the City's Sewer System, to fund the 2014 Series B Reserve Subaccount, and to pay costs of issuing the 2014 Series B Bonds, in 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 2014 Series B Bonds are subject to optional and mandatory redemption under the terms stated in the 2014 Series B Bond 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 2014 Series B 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 2014 Series B 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 2014 Series B 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 Portland, Oregon

Charlie Hales, Mayor

LaVonne Griffin-Valade, Auditor

THIS 2014 SERIES B BOND SHALL NOT BE VALID UNLESS PROPERLY
AUTHENTICATED BY THE REGISTRAR IN THE SPACE INDICATED BELOW.

CERTIFICATE OF AUTHENTICATION

This 2014 Series B Bond is one of a series of \$204,220,000 aggregate principal amount of Second Lien Sewer System Revenue Bonds, 2014 Series B, of the City, issued pursuant to the 2014 Series B Bond Declaration and the Master Declaration both described herein.

Date of authentication: August 14, 2014

U.S. Bank National Association, as Registrar

Authorized Officer

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned sells, assigns and transfers unto: _____

(Please insert social security or other identifying number of assignee)

this 2014 Series B Bond and does hereby irrevocably constitute and appoint _____ as attorney to transfer this 2014 Series B Bond on the books kept for registration thereof with the full power of substitution in the premises.

Dated: _____

NOTICE: The signature to this assignment must correspond with the name of the registered owner as it appears upon the face of this 2014 Series B Bond in every particular, without alteration or enlargement or any change whatever.

NOTICE: Signature(s) must be guaranteed by a member of the New York Stock Exchange or a commercial bank or trust company

Signature Guaranteed

(Bank, Trust Company or Brokerage Firm)

Authorized Officer

The following abbreviations, when used in the inscription on the face of this 2014 Series B Bond, shall be construed 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:

_____ CUST UL OREG _____ MIN

as custodian for (name of minor)

OR UNIF TRANS MIN ACT

under the Oregon Uniform Transfer to Minors Act

Additional abbreviations may also be used though not in the list above.

APPENDIX E
AUDITED FINANCIAL STATEMENTS



INTRODUCTION TO FINANCIAL STATEMENTS

The financial statements of the City have been audited by independent certified public accountants for the fiscal years 2009, 2010, 2011, 2012 and 2013. Copies of these financial statements containing the reports of the independent certified public accountants are available on the City's website at:

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

The following pages in this Appendix E are excerpted from the City's Comprehensive Annual Financial Reports of the City for Fiscal Years ending June 30, 2009 through June 30, 2013. Any Notes that follow the tabular data have been prepared by the City and have not been reviewed by the independent auditor.

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 2014 BONDS AND IS THEREFORE NOT ASSOCIATED WITH THE 2014 BONDS.

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

	2009	2010	2011	2012	2013
ASSETS					
Current assets (unrestricted):					
Cash and investments	\$ 77,591,298	\$ 52,151,004	\$ 42,679,782	\$ 31,939,279	\$ 26,876,179
Receivables					
Accounts, net	36,021,211	36,961,411	39,820,839	44,453,631	48,499,600
Assessments	4,938,001	2,997,035	3,847,378	585,357	700,046
Advances	10,000	-	-	-	-
Accrued interest	1,891,102	560,514	1,045,815	347,510	153,460
Due from other funds	1,303,924	21,013	21,013	21,013	-
Due from component unit	-	-	75,000	5,000	-
Internal loans	-	500,940	16,700,000	-	-
Inventories	1,074,639	1,140,815	1,291,697	1,335,900	1,362,289
Prepaid expenses	2,113,087	1,571,500	757,176	-	-
Total current assets (unrestricted)	<u>124,943,262</u>	<u>95,904,232</u>	<u>106,238,700</u>	<u>78,687,690</u>	<u>77,591,574</u>
Current assets (restricted)					
Cash and investments	-	2,217,812	13,428,254	1,085,641	-
Total current assets (restricted)	<u>-</u>	<u>2,217,812</u>	<u>13,428,254</u>	<u>1,085,641</u>	<u>-</u>
Total current assets	<u>124,943,262</u>	<u>98,122,044</u>	<u>119,666,954</u>	<u>79,773,331</u>	<u>77,591,574</u>
Noncurrent assets (unrestricted):					
Capital assets, not being depreciated or amortized:					
Land	46,657,942	44,587,339	54,565,230	62,091,165	67,271,989
Construction in progress	505,635,924	660,198,402	800,494,115	142,267,439	143,972,297
Intangible assets:					
Land use rights	-	-	11,988,421	12,122,209	13,733,820
Capital assets, being depreciated or amortized:					
Plant, buildings and improvements	20,392,764	31,112,788	21,146,577	21,146,575	21,146,575
Equipment	28,311,433	29,798,884	22,884,843	27,104,061	27,708,229
Intangible assets:					
Software	-	-	8,594,081	9,710,018	8,716,383
Infrastructure	2,089,164,385	2,148,662,039	2,241,748,831	3,031,438,190	3,123,451,365
Capitalized leases	306,728	306,728	-	-	-
Accumulated depreciation and amortization:	<u>(263,805,874)</u>	<u>(293,159,335)</u>	<u>(323,209,523)</u>	<u>(351,363,155)</u>	<u>(387,944,082)</u>
Capital assets net of accumulated depreciation and amortization	2,426,663,302	2,621,506,845	2,838,212,575	2,954,516,502	3,018,056,576
Receivables:					
Internal loan	-	21,700,000	-	-	-
Assessments	-	-	-	3,538,231	3,576,109
Pre-paid pension obligation	22,952,002	21,827,822	20,703,641	19,579,460	18,455,279
Total noncurrent assets (unrestricted)	<u>2,449,615,304</u>	<u>2,665,034,667</u>	<u>2,858,916,216</u>	<u>2,977,634,193</u>	<u>3,040,087,964</u>
Noncurrent assets (restricted):					
Cash and investments	72,203,826	53,244,370	115,677,506	28,070,500	28,070,500
Total non-current assets	<u>72,203,826</u>	<u>53,244,370</u>	<u>115,677,506</u>	<u>28,070,500</u>	<u>28,070,500</u>
Total assets	<u>2,646,762,392</u>	<u>2,816,401,081</u>	<u>3,094,260,676</u>	<u>3,085,478,024</u>	<u>3,145,750,038</u>

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

	2009	2010	2011	2012	2013
LIABILITIES					
Current liabilities (payable from unrestricted assets):					
Accounts payable	\$18,112,711	\$24,882,897	\$6,415,162	\$11,683,405	\$15,877,453
Compensated absences	2,098,956	2,641,467	3,008,431	3,278,581	3,615,684
Due to component unit	1,814,662	-	-	-	25,000
Capital leases payable	84,772	-	-	-	-
Unearned revenue	683,732	499,378	591,126	549,721	617,592
Bonds payable	53,284,499	62,454,523	77,063,726	80,245,847	83,546,071
Notes and loans payable	1,157,893	7,910,345	1,280,253	1,354,862	1,368,041
Accrued interest payable	7,656,185	7,802,355	13,410,551	13,038,480	12,807,890
Pollution remediation	-	277,500	153,000	145,000	99,000
Other liabilities	342,333	265,876	126,157	136,115	134,750
Total current liabilities (unrestricted)	85,235,743	106,734,341	102,048,406	110,432,011	118,091,481
Current liabilities (payable from restricted assets):					
Accounts payable	-	\$2,217,812	\$13,428,254	\$1,085,641	\$0
Total current liabilities (restricted)	-	2,217,812	13,428,254	1,085,641	-
Total current liabilities	85,235,743	108,952,153	115,476,660	111,517,652	118,091,481
Noncurrent liabilities:					
Compensated absences	1,422,569	876,594	656,020	569,863	365,582
Bonds payable	1,387,785,456	1,319,152,128	1,673,468,737	1,593,222,889	1,509,676,818
Notes and loans payable	18,877,070	172,385,128	19,291,988	19,178,792	96,428,059
Capital leases payable	-	-	-	-	-
Prepaid sewer assessment	37,698	-	-	-	-
Accrued interest payable	3,954,617	4,716,240	6,481,013	7,364,966	8,320,348
Other postemployment benefits	709,049	901,537	1,157,019	1,284,644	1,426,170
Pollution remediation	-	45,000	172,000	415,000	85,000
Other liabilities	-	21,774	34,491	146,794	94,837
Total noncurrent liabilities	1,412,786,459	1,498,098,401	1,701,261,268	1,622,182,948	1,616,396,814
Total liabilities	1,498,022,202	1,607,050,554	1,816,737,928	1,733,700,600	1,734,488,295
NET ASSETS					
Net investment in capital assets	1,065,106,461	1,136,948,380	1,213,009,965	1,317,654,559	1,382,838,427
Restricted for:					
Debt service	200,000	200,000	200,000	200,000	200,000
Capital projects	-	53,044,371	-	-	-
Unrestricted	83,433,729	19,157,776	64,312,783	33,922,865	28,223,316
Total net assets	\$ 1,148,540,190	\$ 1,209,350,527	\$ 1,277,522,748	\$ 1,351,777,424	\$ 1,411,261,743

Source: City of Portland audited financial statements.

CITY OF PORTLAND, OREGON
SEWAGE DISPOSAL FUND
STATEMENT OF REVENUES, EXPENSES, and CHANGES IN FUND NET ASSETS
Fiscal Years Ending June 30

	2009	2010	2011	2012	2013
Operating revenues:					
Service charges and fees	\$226,397,001	\$219,312,766	\$239,654,867	\$255,238,165	\$276,217,238
Service charges and fees provided internally	-	-	-	-	3,390,534
Licenses and permits	1,094,165	1,042,164	1,103,843	1,428,987	1,405,704
Rents and reimbursements	55,780	123,566	66,146	71,291	71,799
Miscellaneous	712,433	8,885,510	4,576,102	1,732,379	2,685,315
Total operating revenues	<u>228,259,379</u>	<u>229,364,006</u>	<u>245,400,958</u>	<u>258,470,822</u>	<u>283,770,590</u>
Operating expenses:					
Salaries and wages	38,918,743	41,486,812	42,831,171	46,008,644	47,319,527
Operating supplies	3,394,636	3,398,251	3,614,671	3,428,085	3,923,604
Professional services	37,765,018	38,907,719	39,330,658	35,452,114	3,487,969
Services and materials provided internally	-	-	-	-	33,662,713
Utilities	5,171,400	4,372,847	4,147,994	5,053,988	5,381,126
Claims	-	-	-	7,640.00	-
Miscellaneous	1,909,729	423,054	1,285,846	6,677,789	10,362,058
Utility license fees	12,809,321	12,809,321	12,809,321	12,809,321	12,672,638
Depreciation expense	29,511,785	29,535,000	30,320,911	30,158,176	39,459,906
Total operating expenses	<u>129,480,632</u>	<u>130,933,004</u>	<u>134,340,572</u>	<u>139,595,757</u>	<u>156,269,541</u>
Operating income (loss)	<u>98,778,747</u>	<u>98,431,002</u>	<u>111,060,386</u>	<u>118,875,065</u>	<u>127,501,049</u>
Nonoperating revenues (expenses):					
Gain (loss) on sale of capital assets	(252,088)	36,531	292,955	(150,009)	(38,716)
Investment earnings	7,926,561	687,287	2,836,518	709,195	321,701
Interest expense	(50,336,722)	(39,406,741)	(47,006,826)	(46,130,545)	(63,535,315)
Debt issuance costs	(102,499)	(124,150)	(1,006,118)	(104,887)	(182,450)
Miscellaneous	(1,124,180)	-	-	-	(14,835.00)
Total nonoperating revenues (expenses)	<u>(43,888,928)</u>	<u>(38,807,073)</u>	<u>(44,883,471)</u>	<u>(45,676,246)</u>	<u>(63,449,615)</u>
Income (loss) before contributions and transfers	54,889,819	59,623,929	66,176,915	73,198,819	64,051,434
Transfers in	62,100	119,037	295,348	151,552	160,655
Transfers out	(799,601)	(690,649)	(441,074)	(415,016)	(442,672)
Capital contributions	2,053,939	958,038	2,141,032	1,319,321	2,714,902
Income before special item	56,206,257	60,010,355	68,172,221	74,254,676	66,484,319
Special Item					
Capital asset write-off	-	-	-	-	(7,000,000)
Change in net position	56,206,257	60,010,355	68,172,221	74,254,676	59,484,319
Total net assets -- beginning, as restated	<u>1,092,533,933</u>	<u>1,149,340,172</u>	<u>1,209,350,527</u>	<u>1,277,522,748</u>	<u>1,351,777,424</u>
Total net assets -- ending	<u>\$ 1,148,740,190</u>	<u>\$ 1,209,350,527</u>	<u>\$ 1,277,522,748</u>	<u>\$ 1,351,777,424</u>	<u>\$ 1,411,261,743</u>

Source: City of Portland audited financial statements.

**CITY OF PORTLAND, OREGON
SEWAGE DISPOSAL FUND
STATEMENT OF CASH FLOWS
For Fiscal Years Ending June 30**

	2009	2010	2011	2012	2013
CASH FLOWS FROM OPERATING ACTIVITY					
Receipts from customers and users	\$ 221,276,452	\$ 206,963,404	\$ 245,915,334	\$ 268,684,172	\$ 275,644,129
Receipts from interfund services provided	1,980,135	2,517,052	2,095,050	2,363,095	3,411,547
Payments to suppliers	(30,947,656)	(9,559,183)	(25,214,112)	(22,861,577)	(17,001,840)
Payments to employees	(38,037,233)	(40,173,608)	(41,305,118)	(44,572,845)	(45,920,998)
Payments for interfund services used	(32,501,504)	(43,014,730)	(43,507,055)	(47,328,672)	(49,810,572)
Other receipts (payments)	64,555	333,520	12,816	324	610,262
	<hr/>				
Net cash provided by operating activities	121,834,749	117,066,455	137,996,915	156,284,497	166,932,528
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers in	62,100	119,037	109,486	65,505	117,066
Transfers out	(799,601)	(690,649)	(388,970)	(415,016)	(442,672)
	<hr/>				
Net cash provided (used) by noncapital financing activities	(737,501)	(571,612)	(279,484)	(349,511)	(325,606)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sale of bonds and notes	33,297	161,431,827	409,316,352	1,267,882	78,617,308
Premium on bonds and notes issued	-	-	42,143,289	-	-
Sale of capital assets	311,639	116,235	76,144	380,831	324,698
Acquisition of capital assets	(182,453,198)	(222,900,227)	(244,535,041)	(145,587,575)	(107,619,737)
Principal paid on bonds, notes and capital leases	(48,909,205)	(54,540,592)	(234,858,270)	(70,001,109)	(73,499,469)
Interest paid on bonds, notes and capital leases	(60,756,963)	(44,677,749)	(47,032,648)	(53,987,750)	(70,911,764)
Debt issuance costs	(102,499)	(124,150)	(1,006,118)	(104,887)	(182,450)
	<hr/>				
Net cash provided (used) by capital related financing activities	(291,876,929)	(160,694,656)	(75,896,292)	(268,032,608)	(173,271,414)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest on investments	8,179,318	2,017,875	2,351,217	1,407,500	515,751
	<hr/>				
Net increase (decrease) in cash and cash equivalents	(162,600,363)	(42,181,938)	64,172,356	(110,690,122)	(6,148,741)
CASH AND CASH EQUIVALENTS					
July 1, Prior Year	312,395,487	149,795,124	107,613,186	171,785,542	61,095,420
	<hr/>				
CASH AND CASH EQUIVALENTS June 30, Current Year	\$ 149,795,124	\$ 107,613,186	\$ 171,785,542	\$ 61,095,420	\$ 54,946,679
	<hr/>				
Reconciliation of Cash and Cash Equivalents to the Statements of Net Assets:					
Unrestricted cash and cash equivalents	\$77,591,298	\$52,151,004	\$42,679,782	\$31,939,279	\$26,876,179
Restricted cash and cash equivalents	72,203,826	55,462,182	129,105,760	29,156,141	28,070,500
	<hr/>				
Total	\$149,795,124	\$107,613,186	\$171,785,542	\$61,095,420	\$54,946,679

CITY OF PORTLAND, OREGON
SEWAGE DISPOSAL FUND
STATEMENT OF CASH FLOWS (Continued)
For Fiscal Years Ending June 30

	2009	2010	2011	2012	2013
Reconciliation of operating income (loss) to net cash provided by operating activities					
Operating income (loss)	\$ 98,778,747	\$ 98,431,002	\$ 111,060,386	\$ 118,875,065	\$ 127,501,049
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization of capital assets	29,511,785	29,535,000	30,320,911	30,158,176	39,459,906
Provision for uncollectible accounts	1,224,893	1,380,583	1,204,408	1,183,469	800,086
Change in assets and liabilities:					
Accounts and contracts receivable	(6,489,105)	1,295,950	(2,975,673)	(4,211,114)	(3,874,441)
Inventories	(61,237)	(66,176)	(150,882)	(44,203)	(26,389)
Accounts payable	(2,934,608)	8,987,998	(7,257,293)	(7,074,370)	3,108,407
Compensated absences	535,690	(3,464)	146,390	183,993	132,822
Due from (to) other funds	1,524,738	(531,751)	(75,000)	70,000	21,013
Due from (to) component unit	-	-	-	-	30,000
Internal loans receivable	-	(22,200,940)	5,500,940	16,700,000	-
Unearned revenue	85,899	(184,354)	91,748	(41,405)	67,871
Accrued other postemployment benefits	345,820	192,488	255,482	127,625	141,526
Pollution remediation	-	-	-	-	(376,000)
Other accrued liabilities	(687,873)	230,119	(124,502)	357,261	(53,322)
Net cash provided by operating activities	<u>\$ 121,834,749</u>	<u>\$ 117,066,455</u>	<u>\$ 137,996,915</u>	<u>\$ 156,284,497</u>	<u>\$ 166,932,528</u>
Noncash information					
Prepaid PERS amortization	1,124,180	1,124,180	(1,124,180)	(1,124,181)	(1,124,181)
Capital contribution	2,053,939	958,038	2,141,032	1,319,321	2,714,902
Special item: Capital asset write-off	-	-	-	-	(7,000,000)
Increase in fair value of investments (classified as cash equivalents)	134,351	(1,427,627)	855,563	(381,966)	(249,324)

Source: City of Portland audited financial statements.

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

	2009	2010	2011	2012	2013
ASSETS					
Current assets (unrestricted)					
Cash and investments	\$ 3,662,894	\$ 3,685,799	\$ 5,332,780	\$ 5,923,399	\$ 3,176,170
Receivables:					
Accrued interest	6,509	2,764	13,768	18,087	10,254
Internal loans		0	0	295,000	-
Total current assets (unrestricted)	<u>3,669,403</u>	<u>3,688,563</u>	<u>5,346,548</u>	<u>6,236,486</u>	<u>3,186,424</u>
Noncurrent assets (unrestricted):					
Capital assets, not being depreciated or amortized	1,563,332	1,563,333	1,563,333	1,563,333	1,563,333
Land	-	5,416	5,416	-	-
Capital assets, being depreciated or amortized:					
Infrastructure	-	-	-	5,416	5,416
Buildings	1,768,170	1,768,170	1,768,170	1,768,170	1,768,170
Improvements to land	1,520,801	1,520,801	1,520,801	1,520,801	1,520,801
Accumulated depreciation and amortization	(843,035)	(911,998)	(980,961)	(1,049,925)	(1,118,942)
Capital assets, net of depreciation and amortization	<u>4,009,268</u>	<u>3,945,722</u>	<u>3,876,759</u>	<u>3,807,795</u>	<u>3,738,778</u>
Prepaid pension obligation	10,303	9,798	9,292	8,786	8,280
Total noncurrent assets (unrestricted)	<u>4,019,571</u>	<u>3,955,520</u>	<u>3,886,051</u>	<u>3,816,581</u>	<u>3,747,058</u>
Noncurrent assets (restricted):					
Cash and investments	-	-	-	-	1,009,510
Total noncurrent assets	<u>4,019,571</u>	<u>3,955,520</u>	<u>3,886,051</u>	<u>3,816,581</u>	<u>4,756,568</u>
Total assets	<u>\$ 7,688,974</u>	<u>\$ 7,644,083</u>	<u>\$ 9,232,599</u>	<u>\$ 10,053,067</u>	<u>\$ 7,942,992</u>
LIABILITIES					
Current liabilities (payable from unrestricted assets)					
Accounts payable	\$ 779,329	\$ 834,026	\$ 1,096,429	\$ 1,184,867	\$ 181,091
Compensated absences	34,773	46,521	42,908	34,978	38,909
Bonds payable	369	438	518	601	691
Accrued interest payable	31	30	31	31	31
Pollution remediation	2,250,000	1,550,000	1,550,000	695,000	500,000
Total current liabilities (unrestricted)	<u>3,064,502</u>	<u>2,431,015</u>	<u>2,689,886</u>	<u>1,915,477</u>	<u>720,722</u>
Noncurrent liabilities					
Compensated absences	25,805	16,744	10,347	6,594	4,255
Bonds payable	14,104	13,664	13,142	12,541	11,850
Accrued interest payable	1,765	2,104	2,910	3,307	3,736
Other postemployment benefits	7,386	9,195	11,893	12,674	13,483
Pollution remediation	-	3,080,000	1,340,000	610,000	360,000
Total noncurrent liabilities	<u>49,060</u>	<u>3,121,707</u>	<u>1,378,292</u>	<u>645,116</u>	<u>393,324</u>
Total liabilities	<u>3,113,562</u>	<u>5,552,722</u>	<u>4,068,178</u>	<u>2,560,593</u>	<u>1,114,046</u>
NET POSITION					
Net investment in capital assets	4,009,268	3,945,724	3,876,759	3,807,795	3,738,778
Restricted for capital projects	-	-	-	-	1,009,510
Unrestricted	566,144	(1,854,363)	1,287,662	3,684,679	2,080,658
Total net position	<u>\$ 4,575,412</u>	<u>\$ 2,091,361</u>	<u>\$ 5,164,421</u>	<u>\$ 7,492,474</u>	<u>\$ 6,828,946</u>

CITY OF PORTLAND, OREGON
ENVIRONMENTAL REMEDIATION FUND
STATEMENT OF REVENUES, EXPENSES, and CHANGES IN FUND NET ASSETS
FISCAL YEAR ENDING JUNE 30

	2009	2010	2011	2012	2013
Operating revenues:					
Service charges and fees	\$ 229,644	\$ 6,158,862	\$ 6,424,068	\$ 5,424,547	\$ 3,169,753
Service charges and fees provided internally	-	-	-	-	\$ 410,006
Rents and reimbursements	481,970	382,452	482,540	467,637	479,090
Miscellaneous	4,355,000	225	69,085	5,977	1,758
Total operating revenues	<u>5,066,614</u>	<u>6,541,539</u>	<u>6,975,693</u>	<u>5,898,161</u>	<u>4,060,607</u>
Operating expenses:					
Salaries and wages	546,448	598,319	624,041	382,610	347,148
Operating supplies	137	-	69	2,170	2,724
Professional services	3,033,473	3,113,943	2,528,503	2,665,935	1,075,934
Services and materials provided internally	-	-	-	-	995,208
Utilities	-	-	-	-	-
Utility license fee	-	-	-	-	154,520
Miscellaneous	1,460,724	5,222,005	730,809	486,176	1,331,994
Depreciation and amortization	68,327	68,963	68,963	68,963	69,017
Total operating expenses	<u>5,109,109</u>	<u>9,003,230</u>	<u>3,952,385</u>	<u>3,605,854</u>	<u>3,976,545</u>
Operating income	<u>(42,495)</u>	<u>(2,461,691)</u>	<u>3,023,308</u>	<u>2,292,307</u>	<u>84,062</u>
Nonoperating revenues (expenses):					
Investment earnings (loss)	69,670	(24,140)	48,574	36,702	2,710
Miscellaneous	(818)	(734)	(1,191)	(771)	(805)
Interest expense	(505)	-	-	-	-
Total nonoperating revenues (expenses)	<u>68,347</u>	<u>(24,874)</u>	<u>47,383</u>	<u>35,931</u>	<u>1,905</u>
Income before contributions and transfers	25,852	(2,486,565)	3,070,691	2,328,238	85,967
Transfers in	-	2,718	2,544	-	702
Transfers out	(1,788)	(204)	(175)	(185)	(750,197)
Change in net assets	<u>24,064</u>	<u>(2,484,051)</u>	<u>3,073,060</u>	<u>2,328,053</u>	<u>(663,528)</u>
Total net assets -- beginning	<u>4,551,348</u>	<u>4,575,412</u>	<u>2,091,361</u>	<u>5,164,421</u>	<u>7,492,474</u>
Total net assets -- ending	<u>\$ 4,575,412</u>	<u>\$ 2,091,361</u>	<u>\$ 5,164,421</u>	<u>\$ 7,492,474</u>	<u>\$ 6,828,946</u>

**CITY OF PORTLAND, OREGON
ENVIRONMENTAL REMEDIATION FUND
STATEMENT OF CASH FLOWS
FISCAL YEAR ENDING JUNE 30**

	2009	2010	2011	2012	2013
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and users	\$ 5,066,614	\$ 6,541,539	\$ 6,975,693	\$ 5,167,592	\$ 3,650,601
Receipts from interfund services provided	-	-	-	435,569	410,006
Payments to suppliers	(4,319,259)	(10,536,667)	(4,736,978)	(3,768,942)	(4,013,950)
Payments to employees	(530,537)	(593,318)	(630,847)	(393,006)	(344,241)
Payments for interfund services used	(428,374)	5,416	-	(881,901)	(995,206)
Net cash provided (used) by operating activities	<u>(211,556)</u>	<u>(4,583,030)</u>	<u>1,607,868</u>	<u>559,312</u>	<u>(1,292,790)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers in	-	2,718	2,544	-	702
Transfers out	(1,788)	(204)	(175)	(185)	(750,197)
Payments from internal loans	-	-	-	-	295,000
Net cash used by noncapital financing activities	<u>(1,788)</u>	<u>2,514</u>	<u>2,369</u>	<u>(185)</u>	<u>(454,495)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sale of bonds and notes	-	4,630,000	-	-	-
Acquisition of capital assets	-	(5,417)	-	-	-
Principal paid on bonds, notes and capital leases	(301)	(370)	(442)	(518)	(601)
Interest paid on bonds, notes and capital leases	(507)	(396)	(384)	(373)	(376)
Net cash used by capital related financing activities	<u>(808)</u>	<u>4,623,817</u>	<u>(826)</u>	<u>(891)</u>	<u>(977)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest earning (loss) on investments	<u>80,364</u>	<u>(20,396)</u>	<u>37,570</u>	<u>32,383</u>	<u>10,543</u>
Net increase (decrease) in cash and cash equivalents	(133,788)	22,905	1,646,981	590,619	(1,737,719)
CASH AND CASH EQUIVALENTS, July 1, 2011	<u>3,796,682</u>	<u>3,662,894</u>	<u>3,685,799</u>	<u>5,332,780</u>	<u>5,923,399</u>
CASH AND CASH EQUIVALENTS, June 30, 2012	<u>\$ 3,662,894</u>	<u>\$ 3,685,799</u>	<u>\$ 5,332,780</u>	<u>\$ 5,923,399</u>	<u>\$ 4,185,680</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:					
Unrestricted cash and cash equivalents	\$ 3,662,894	\$ 3,685,799	\$ 5,332,780	\$ 5,923,399	\$ 3,176,170
Restricted cash and cash equivalents	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,009,510</u>
Total cash and cash equivalents	<u>\$ 3,662,894</u>	<u>\$ 3,685,799</u>	<u>\$ 5,332,780</u>	<u>\$ 5,923,399</u>	<u>\$ 4,185,680</u>

**CITY OF PORTLAND, OREGON
ENVIRONMENTAL REMEDIATION FUND
STATEMENT OF CASH FLOWS (continued)
FISCAL YEAR ENDING JUNE 30**

	2009	2010	2011	2012	2013
Reconciliation of operating income (loss) to net cash provided (used) by operating activities					
Operating income (loss)	\$ (42,495)	\$ (2,461,691)	\$ 3,023,308	\$ 2,292,307	\$ 84,062
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	68,327	68,963	68,963	68,963	69,017
Change in assets and liabilities:					
Accounts, contracts receivable, advances and assessments	-	-	506	506	506
Internal loans receivable	-	-	-	(295,000)	-
Accounts payable	(253,299)	(2,195,303)	262,403	88,438	(1,003,776)
Compensated absences	12,490	2,687	(10,010)	(11,683)	1,592
Other postemployment benefits	3,421	1,809	2,698	781	809
Pollution remediation	-	-	(1,740,000)	(1,585,000)	(445,000)
Other assets	-	505	-	-	-
Net cash provided (used) by operating activities	<u>\$ (211,556)</u>	<u>\$ (4,583,030)</u>	<u>\$ 1,607,868</u>	<u>\$ 559,312</u>	<u>\$ (1,292,790)</u>
Non-cash Information					
Non-operating prepaid PERS amortization	\$ 505	\$ 505	\$ (506)	\$ (506)	\$ (506)
Increase (decrease) in fair value of investments (classified as cash equivalents)	15,657	(37,361)	27,429	2,503	(24,184)

APPENDIX F
CITY OPERATING AND FINANCIAL INFORMATION



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. In January 2014, the City Council approved a five-year contract with the Citizens' Utility Board of Oregon, an independent consumer advocacy nonprofit organization, to provide input regarding the City's water and sewer bureaus on behalf of residential customers. The Citizens' Utility Board will provide recommendations to the City Council on capital spending, rates, and customer service issues.

A five-year General Fund financial forecast, which serves as the basis for determining resources available for budgeting, is also provided to the City Council along with budget requests. Major City bureaus generally prepare and submit five-year financial plans and Capital Improvement Plans. The City Budget Office, which was created by the City Council in December 2012, coordinates the budget development process. See "SUPPLEMENTAL INFORMATION—CHANGES IN CITY FINANCIAL MANAGEMENT" herein.

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.

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 2012-13.

A complete copy of the City's FY 2012-13 audit is available on the City's web site at <http://www.portlandoregon.gov/bfs/64083>. 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 Sewage Disposal Fund and Environmental Remediation Fund on a Generally Accepted Accounting Principles (GAAP) basis are found in Appendix E. See Appendix E, "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 ending June 30, 2014 the expected rate of return used was 0.40 percent. For fiscal year ending June 30, 2015, the expected rate of return used was 0.50 percent and for subsequent years, the expected rate of return was 0.60 percent. The Bureau of Human Resources and the employee benefits consultant determines relevant employees' medical coverage estimates.

The City provides insurance coverage that the City deems to be adequate, appropriate, and actuarially sound to meet the City's anticipated settlements, obligations and outstanding liabilities as described above. Current levels of accrued claims and retained earnings are viewed as reasonable provisions for expected future losses. An excess liability coverage insurance policy covers occurrences in excess of \$1,000,000 to policy limits for covered loss excluding law enforcement liability. Effective November 12, 2013, the excess liability for law enforcement requires a \$2.5 million retention before insurance begins coverage. An excess workers' compensation coverage insurance policy covers claims in excess of \$850,000 for occurrences after July 1, 2012. The City purchases commercial insurance for claims in excess of coverage provided by the self-insurance fund.

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 \$633,300 for causes of action arising on or after July 1, 2013, and before July 1, 2014. 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 \$1,266,700 for causes of action arising on or after July 1, 2013, and before July 1, 2014, 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, 2013, and before July 1, 2014, are as follows: (a) \$106,700 for any single claimant and (b) \$533,400 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

Overview

The Oregon Public Employees Retirement System (“PERS” or “the Statewide PERS System”) provides statewide defined benefit retirement plans for units of state government, political subdivisions, community colleges, and school districts. Most public employers in Oregon, including the City, participate in PERS. PERS is administered under Oregon Revised Statutes (ORS) Chapter 238, Chapter 238A, and Internal Revenue Code Section 401(a) by the Public Employees Retirement Board (the “PERS Board”). The PERS Board is responsible for setting policies and for providing administrative direction to PERS. Benefits provided through PERS are paid from the Oregon Public Employees’ Retirement Fund (“OPERF”). PERS is a cost-sharing, multiple-employer public employee retirement system.

City employees (other than certain fire and police personnel), after six months of employment, participate in one of three retirement pension benefit programs provided through PERS as described below. The three PERS pension programs include two closed defined benefit programs and one program that has features of both defined benefit and defined contribution plans. In a defined benefit plan, the investment risk for the plan assets is borne by the employer. In a defined contribution plan, the investment risk for the plan assets is borne by the employee. A combination of participating employer contributions (determined by the PERS Board based upon the results of actuarial valuations), investment earnings and employee contributions (currently 6 percent of salaries and 9 percent for police and fire employees) fund these pension programs. See “—Employer Contribution Rates and Amounts” and “—Fire and Police Disability and Retirement Plan” below.

Benefit Programs

Employees hired before January 1, 1996 are known as “Tier 1” participants. The retirement benefits applicable to Tier 1 participants are based on a defined benefit model. Tier 1 has an assumed earnings rate guarantee of 7.75 percent and a normal retirement age of 58. PERS maintains a “Tier One Rate Guarantee Reserve” which is credited with investment earnings in excess of the assumed earnings rate guarantee and used to offset the effects of investment earnings below the assumed earnings rate guarantee. As of June 30, 2013, the balance of this reserve was negative \$0.3 million. As of June 30, 2013, there were 39,554 active members and 19,160 inactive members for a total of 58,714 Tier 1 members in the Statewide PERS System.

Employees hired on or after January 1, 1996, and before August 29, 2003, are known as “Tier 2” participants. The Tier 2 program also provides a defined benefit but with lower expected costs to employers than under the Tier 1 benefit. There is no assumed earnings rate guarantee and Tier 2 has a higher normal retirement age of 60. As of June 30, 2013, there were 45,190 active members and 16,889 inactive members for a total of 62,079 Tier 2 members in the Statewide PERS System.

Employees hired on or after August 29, 2003 are participants in a successor retirement program to the Tier 1 and Tier 2 retirement programs (the “T1/T2 Pension Programs”) known as the Oregon Public Service Retirement Plan (“OPSRP”). OPSRP consists of a defined benefit plan and also offers the Individual Account Program (“IAP”), which offers a defined contribution benefit. As of June 30, 2013, there were 78,515 active members and 8,770 inactive members for a total of 87,285 OPSRP Pension Program members.

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

Apportionment of City Assets and Liabilities

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

Employer Asset Valuation and Liabilities

Oregon statutes require an actuarial valuation of the Statewide PERS System by a competent actuary at least once every two years. The PERS current actuary, Milliman, Inc. replaced the prior actuary, Mercer (US), Inc. (“Mercer”) in January 2012. Under current

practice, actuarial valuations are performed annually, but only valuations as of the end of each odd-numbered year are used to determine annual required employer contribution rates that employers will be required to pay to fund the obligations of T1/T2 Pension Programs, OPSRP and the PERS-sponsored Retirement Health Insurance Account Plan (“RHIA”). See “POST-EMPLOYMENT RETIREMENT BENEFITS” below. Valuations are released approximately one year after the valuation date.

An employer’s unfunded actuarial liability (“UAL”) is the excess of the actuarially determined present value of the employer’s benefit obligations to employees over the existing actuarially determined assets available to pay those benefits. At its September 27, 2013 meeting, the PERS Board modified certain methods and assumptions, which are used beginning for the 2012 actuarial valuations. The following table shows methods and assumptions adopted by the PERS Board, which are the basis for the actuarial valuations.

**Table F-1
OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM
Actuarial Assumptions and Methods**

ASSUMPTION/METHOD	PREVIOUS (2004-2011 VALUATIONS)	CURRENT (2012 VALUATION)
Actuarial Cost Method:	Projected Unit Credit	Entry Age Normal
UAL -Method:		
T1/T2 Programs	Level Percentage of Payroll over 20 years (fixed)	Level Percentage of Payroll over 20 years (fixed) (1)
OPSRP	Level Percentage of Payroll over 16 years (fixed)	Level Percentage of Payroll over 16 years (fixed)
Asset Valuation Method:	Market Value (2)	Market Value (2)
Investment Rate of Return:	8.00%	7.75%
Payroll Growth Rate:	3.75%	3.75%
Inflation Level:	2.75%	2.75%
Contribution Rate Stabilization Method:	Contribution rate may increase or decrease by 3% of payroll or by 20% of the previous rate; whichever is greater, when an employer’s funded status is between 80% and 120%. At a funded status of 70% or less, or 130% or more, the limitation doubles to 6% of payroll or 40% of the previous rate, whichever is greater. At a funded status between 70% and 80% or 120% and 130%, the limitation increases in increments between 3%-6% of payroll or 20%-40% of the previous rate, whichever is greater.	Contribution rate may increase or decrease by 3% of payroll or by 20% of the previous rate; whichever is greater, when an employer’s funded status is between 70% and 130%. At a funded status of 60% or less, or 140% or more, the limitation doubles to 6% of payroll or 40% of the previous rate, whichever is greater. At a funded status between 60% and 70% or 130% and 140%, the limitation increases in increments between 3%-6% of payroll or 20%-40% of the previous rate, whichever is greater.

Notes:

- (1) Although the UAL amortization method remains unchanged, the PERS Board directed Milliman to re-amortize the UAL for the T1/T2 Programs from the 2007, 2009, and 2011 valuations to restart the 20-year amortization period for those UALs effective with the 2013 valuation report.
- (2) Market value of assets reduced by value of assets in statutory reserves (contingency, capital preservation and rate guarantee reserves).

Source: Oregon Public Employees Retirement System.

The PERS actuary released its 2011 valuation for the Statewide PERS System as of December 31, 2011 (the “2011 System Valuation”) on October 26, 2012 and its 2012 valuation for the Statewide PERS System as of December 31, 2012 (the “2012 System Valuation”) on December 13, 2013. These reports include system-wide actuarial valuations for the T1/T2 Pension Programs and OPSRP.

The PERS actuary released the City’s individual 2011 valuation report as of December 31, 2011 (the “2011 City Report”) on September 28, 2012, and its individual 2012 valuation as of December 31, 2012 (the “2012 City Report”) on December 27, 2013. These valuation reports provide the City’s portion of (a) the SLGRP based on the City’s proportionate share of the total SLGRP covered payroll as of the valuation date, (b) OPSRP based on the City’s proportionate share of total OPSRP covered payroll as of the valuation date, and (c) the RHIA.

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

Table F-2
OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM
Summary of Statewide PERS System Funding Levels
(\$ in Millions) ⁽¹⁾

STATEWIDE PERS SYSTEM				
Calendar Year	Actuarial	Unfunded		
	Value of Assets	Actuarial Liability	Actuarial Liability	Funded Ratio
2003	\$42,753.3	\$44,078.1	\$1,324.8	97.0%
2004 ⁽²⁾⁽³⁾	45,708.3	47,398.6	1,690.3	96.4
2005 ⁽⁴⁾	51,403.9	49,294.0	-2,109.9	104.3
2006	56,616.5	51,252.9	-5,363.6	110.5
2007	59,327.8	52,871.2	-6,456.6	112.2
2008	43,520.6	54,259.5	10,738.9	80.2
2009	48,729.2	56,810.6	8,081.4	85.8
2010	51,583.6	59,329.5	7,745.9	86.9
2011	50,168.2	61,198.4	11,030.2	82.0
2012 ⁽⁵⁾	54,784.1	60,405.2	5,621.1	90.7

Notes:

- (1) Composed of Tier 1/Tier 2 and OPSRP pensions but excluding retiree healthcare subsidies of RHIA. Includes side accounts resulting from employer supplemental deposits, including proceeds of pension obligation bonds.
- (2) In 2003, the Oregon Legislative Assembly enacted significant changes to the System and created OPSRP. The 2003 legislative reforms were enacted in response to a growing UAL of the System and to increasing charges to public employers to fund the Statewide PERS System.
- (3) Effective with the 2004 System valuation, the cost method changed from Entry Age Normal to Projected Unit Credit, and the actuarial value of assets was changed from a four-year smoothed value to market value among other changes. In 2012, the cost method was changed back to Entry Age Normal.
- (4) Assets and liabilities for OPSRP are first valued in the 2005 OPSRP Valuation.
- (5) Reflects legislative changes in Senate Bill 822 adopted during the 2013 session of the Oregon State Legislature and assumptions and methods adopted by the PERS Board on September 27, 2013, and recent legislative changes in Senate Bills 861 and 862 adopted during the 2013 special session of the Oregon State Legislature. See "RECENT DEVELOPMENTS" below.

Source: Oregon Public Employees Retirement System.

Table F-3
OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM
Summary of City Funding Levels
(\$ in Millions) ⁽¹⁾

Calendar Year	Actuarial	Unfunded		Funded Ratio
	Value of Assets	Actuarial Liability	Actuarial Liability	
2003	\$1,187.4	\$1,159.2	(\$28.2)	102.4%
2004 ^{(2) (3)}	1,295.5	1,294.9	(0.6)	100.0
2005 ⁽⁴⁾	1,459.9	1,367.1	(92.8)	106.8
2006	1,619.3	1,432.0	(187.3)	113.1
2007	1,635.0	1,410.8	(224.2)	115.9
2008	1,280.6	1,539.9	259.2	83.2
2009	1,424.0	1,606.0	182.0	88.7
2010	1,499.8	1,672.5	172.7	89.7
2011	1,459.0	1,724.2	265.3	84.6
2012 ^{(3) (5)}	1,624.8	1,744.3	119.5	93.2

Notes:

- (1) Composed of Tier 1/Tier 2 and OPSRP pensions but excluding retiree healthcare subsidies of RHIA. City information is calculated separately for the SLGRP and OPSRP using the City's payroll as a percentage of combined payroll of the respective rate pools. Includes impact of pension obligation bonds.
- (2) In 2003, the Oregon Legislative Assembly enacted significant changes to the Statewide PERS System and created OPSRP. The 2003 legislative reforms were enacted in response to a growing UAL of the System and to increasing charges to public employers to fund the Statewide PERS System.
- (3) Effective with the 2004 System valuation, the cost method changed from Entry Age Normal to Projected Unit Credit, and the actuarial value of assets was changed from a four-year smoothed value to market value among other changes. In 2012, the cost method was changed back to Entry Age Normal.
- (4) Assets and liabilities for OPSRP are first valued in the 2005 OPSRP Valuation.
- (5) Reflects legislative changes in Senate Bill 822 adopted during the 2013 session of the Oregon State Legislature and assumptions and methods adopted by the PERS Board on September 27, 2013 and recent legislative changes in Senate Bills 861 and 862 adopted during the 2013 special session of the Oregon State Legislature. See "RECENT DEVELOPMENTS" below.

Source: Oregon Public Employees Retirement System.

The following table presents a history of the City’s member payroll, unfunded actuarial liability and ratio of unfunded actuarial liability to payroll.

Table F-4
OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM
City Payroll for PERS Members and Unfunded Actuarial Liability

Calendar Year	Payroll	Unfunded Actuarial Liability	Unfunded Liability to Payroll Ratio
2003	\$201,036,519	(\$28,240,751)	-14%
2004	220,669,089	(587,340)	0%
2005	226,295,315	(92,818,145)	-41%
2006	242,259,162	(187,332,041)	-77%
2007	259,889,403	(224,199,619)	-86%
2008	289,371,762	259,241,423	90%
2009	303,851,551	182,019,126	60%
2010	307,538,429	172,726,579	56%
2011	303,508,135	265,267,189	87%
2012	311,688,601	119,477,128	38%

Source: Oregon Public Employees Retirement System.

The funded status of the pension programs may change depending on the market performance of the securities that the OPERF is invested in, future changes in compensation and benefits of covered employees, demographic characteristics of members and methodologies and assumptions used by the actuary in estimating the assets and liabilities of PERS. Additionally, the market value of the investments held in the OPERF is determined using various sources.

State Investment Policy

The Oregon State Treasury is the investment officer for the state of Oregon. Investment standards are established in ORS 293.726 and require funds to be managed as a prudent investor would do. The Oregon Investment Council (“OIC”) establishes policies for the investment and reinvestment of moneys in PERS investment funds. Policies are established based on the primary investment asset class of each investment manager. The OIC has approved the following asset classes for the OPERF: Short-Term Investing, Fixed Income, Real Estate, Public and Private Equities, and Alternative Investments. In addition, OPERF invests in the Opportunity Portfolio, which may be populated with investment approaches across a wide range of investment opportunities with no limitation as to asset classes or strategies. The target investment portfolio mix at fair market value as of June 30, 2012, is 43 percent public equity, 16 percent private equity, 25 percent debt securities, 11 percent real estate, and 5 percent alternative equity.

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

Table F-5
OREGON PUBLIC EMPLOYEES RETIREMENT FUND
Oregon PERS Investment Returns (1)

<u>Fiscal Year</u> <u>Ending</u>	<u>Net</u> <u>Returns (%)</u>
2004	17.8
2005	13.9
2006	14.4
2007	18.6
2008	-3.5
2009	-22.2
2010	17.0
2011	22.3
2012	1.6
2013	12.7

Notes:

(1) Total fund performance, excluding variable account.

Source: "Oregon PERS Monthly Returns" as of June 30 of the respective fiscal year shown in the table, website of the Oregon State Treasurer, Investment Division, Oregon Public Employees Retirement Fund (OPERF) as of January 23, 2014.

The following table presents annualized investment returns over the most recent 1-year, 3-year and 5-year periods. Calculations were prepared using a time-weighted rate of return based on market rates in accordance with the Global Investment Performance Standards performance presentation standards.

Table F-6
OREGON PUBLIC EMPLOYEES RETIREMENT FUND
Annualized Investment Results (1)

Periods Ending June 30, 2013	Annualized		
	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>
Total Portfolio, Excluding Variable	12.7%	11.9%	5.0%

Notes:

(1) Total fund performance, excluding variable account.

Source: Comprehensive Annual Financial Report Oregon Public Employees Retirement System, An Agency of the State of Oregon.

Employer Contribution Rates and Amounts

The PERS Board is required by State statute to determine liabilities of the Statewide PERS System from time to time and to set contributions of participating employers at a level that ensures liabilities of the Statewide PERS System will be funded no more than 40 years after the date on which the determination is made. ORS 238.225 requires participating public employers to pay the amounts the PERS Board determines to be actuarially necessary to fund benefits provided to employees.

PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. Employer contribution rates are based upon the current and projected cost of benefits and the anticipated level of funding available from the OPERF, including known and anticipated investment performance of the OPERF.

At the end of each odd-numbered year, actuarial valuations determine the employer contribution rates that are officially set by the PERS Board. All employers participating in PERS are required to make their contribution to PERS based on the employer contribution rates set by the PERS Board. The City's employer contribution rates were derived using a rate stabilization methodology (the "Rate Collar") designed to cap rate increases and reduce large fluctuations in employer contribution rates. Such rate increases are shifted to future biennia, including the 2013-15 biennium. See Table F-1 for a summary of the Rate Collar in effect for the 2011 City Report and the 2012 City Report.

The table below shows the City's current employer contribution rates. The table also shows the City's advisory rates for the 2015-17 biennium as reported in the 2012 City Report. The advisory rates reflect the impact of legislation passed during the 2013 Oregon Legislature Special Session and are based on assumptions and methodologies adopted by the PERS Board at its September 27, 2013, meeting. See Table F-1 for a summary of the assumptions and methodologies and see "—Recent Developments Related to PERS" below. Advisory rates are used by the City in projecting and planning for pension costs in future years. The rates reported in the table do not include the six percent and nine percent employee contribution rates for contributions to the IAP paid by the City. The City's contribution rates may increase or decrease due to a variety of factors, including the investment performance of the OPERF, the use of pension-related reserves, further changes to system valuation methodology and assumptions and decisions by the PERS Board, and changes in benefits resulting from legislative modifications.

Table F-7
OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM
Current and Future Employer Contribution Rates
Percentage of Covered Payroll (1)

Payrolls Paid	Current Rates	Advisory Rates
	2013-15	2015-17
T1/T2	9.34%	12.94%
OPSRP General Services	7.52%	6.92%
OPSRP Police and Fire	10.25%	11.02%

Notes:

- (1) For FY 2012-13, one percent of the City's covered payroll for the three pension benefit programs was approximately: \$1,748,163 for T1/T2 Pension Programs; \$1,026,965 for OPSRP general services; and \$273,966 for OPSRP police and fire.

Source: City of Portland, Oregon Public Employees Retirement System, 2012 City Report prepared by Milliman.

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

City Funding Policy

The City currently has no Council-approved policy regarding funding of its pension liability. However, the City has always funded its full employer contribution as required by ORS 238.225. See "—Employer Contribution Rates and Amounts" above.

Pension Obligation Bonds

In addition to their PERS contribution, City bureaus in existence as of November 10, 1999 (the issue date of the bonds) are required to make a contribution to pay debt service on outstanding Limited Tax Pension Obligation Revenue Bonds (the "Pension Obligation Bonds"), which were issued to fund the City's share of the unfunded actuarial liabilities of PERS as of December 31, 1997. The Pension Obligation Bonds were issued in three series: one series of fixed rate bonds in an amount of \$150,848,346 and two series of auction rate securities in an aggregate amount of \$150,000,000. The final maturity of the fixed rate Pension Obligation Bonds is June 1, 2029. Pension Obligation Bonds issued as auction rate securities mature on June 1, 2019. Table F-8 presents debt service on the City's Pension Obligation Bonds for the past ten fiscal years.

Proceeds of the Pension Obligation Bonds were deposited in an account with PERS. The City opted to amortize the original deposit ratably over the life of the bonds. Table F-8 below shows the amount of bonds amortized annually and debt service paid

by the City on its Pension Obligation Bonds. As of June 30, 2013, the remaining unamortized balance of the bond proceeds deposited with PERS was \$141,138,188.

Total City Pension and RHIA Contribution

The following table shows the amount of City contributions paid to PERS for the three pension programs including amounts paid by the City for the employee contribution, as well as contributions to RHIA. Contributions include the payments from the Fire and Police Disability and Retirement Fund for pensions of police and firefighters participating in the T1/T2 Pension Programs and OPSRP. Fire and Police Disability and Retirement Fund contributions are funded from a dedicated Citywide property tax levy. See “—Fire and Police Disability and Retirement Fund” below. In FY 2012-13, 55.0 percent of the total cash contribution was for the employer share, 41.3 percent was for the employee share, and 3.6 percent of the total was for the City’s contribution to RHIA.

The City made its required contribution for its pension obligation in all years. See “—Employer Contribution Rates and Amounts” above.

Table F-8
CITY OF PORTLAND, OREGON
City Contributions to PERS and Total Pension-Related Contributions

Fiscal Year	Total City Required Contribution (1)	Amortization of Pension Obligation Bonds (2)	City’s Cash Contribution to PERS (3)	Debt Service on Pension Obligation Bonds	Total Cash Contribution for Pension Costs
2004	\$27,390,839	\$8,579,719	\$18,811,120	\$10,255,372	\$29,066,492
2005	28,857,496	8,579,719	20,277,777	11,987,632	32,265,409
2006	29,765,118	8,597,252	21,167,866	14,635,732	35,803,598
2007	31,172,696	8,597,252	22,575,444	18,990,492	41,565,936
2008	32,779,658	8,597,252	24,182,406	19,839,413	44,021,819
2009	43,924,072	8,597,252	35,326,820	22,049,937	57,376,757
2010	41,195,860	8,597,252	32,598,608	18,253,638	50,852,246
2011	42,219,332	8,597,252	33,622,080	16,413,710	50,035,790
2012	53,826,983	8,597,252	45,229,731	17,738,966	62,968,697
2013	53,875,808	8,597,252	45,278,556	19,432,611	64,711,167

Notes:

- (1) Includes City’s statutorily required employer contribution for T1/T2 and OPSRP pension programs, its pension contribution on behalf of employees, and its contribution to the RHIA.
- (2) Change in amortization amounts between FY 2004-05 and FY 2005-06 reflects correction in amortization schedule.
- (3) Includes contributions from FPDR property tax levy and other non-General Fund bureaus such as the Water Bureau and the Bureau of Environmental Services.

Source: City of Portland

Recent Developments Related to PERS

During the 2013 Legislative Session and the 2013 Special Session the Legislative Assembly enacted Senate Bills 822, 861, and 862 (the “PERS Bills”) that together: limit annual benefits cost of living adjustments (“COLAs”), for PERS retirees, eliminate a benefit increase for out-of-state retirees based on Oregon income tax, exclude salary increase given to pay for insurance costs from the final average salary used to calculate pension benefits, and reduce legislators’ participation in PERS. The 2013 PERS Bills are expected to reduce the amount of future benefit payments from the System and reduce the unfunded actuarial liability of the System by approximately \$5 billion.

In addition to legislative actions, in 2013 the PERS Board made other adjustments that were estimated by PERS to increase the unfunded actuarial liability of the System by approximately \$2.5 billion. See Table F-1 for a summary of the changes made by the PERS Board.

As shown in Table F-2, the unfunded actuarial liability of the PERS Statewide System decreased from \$11.03 billion as of December 31, 2011, to \$5.62 billion as of December 31, 2012. That decrease reflects the combined effects of the 2013 PERS Bills, the 2013 Board changes, changes in the actuarial value of the System assets and other factors that are taken into account in the formal valuation of the System by Milliman. See “Table F-2—OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM—Summary of Statewide PERS System Funding Levels” and “Table F-3—OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM—Summary of City Funding Levels.”

Milliman has not completed the actuarial valuation for the PERS Statewide System as of December 31, 2013 (the “2013 System Report”). However, with Milliman’s assistance, PERS estimates that the unfunded actuarial liability of the PERS Statewide System as of December 31, 2013, will have decreased to approximately \$2.2 billion, primarily due to 2013 investment returns well above the assumed earnings rate of 7.75 percent. When completed by Milliman and released in the fall of 2014, the 2013 System Report will report the final actuarially determined funded status of the system as of December 31, 2013. That valuation will be used to set employer contribution rates for the 2015-2017 biennium. The 2013 System Report will also include estimates and projections of the future funded status of the System and employer rates.

Any such estimates and projections are subject to change based on various factors including actual PERS investment earnings, and further changes in PERS actuarial methods and assumptions by the PERS Board and changes in legislation affecting the System. In addition, the PERS Bills have been challenged in the Oregon courts. See “—Challenges to PERS Reforms” below. If the 2013 PERS Bills are overturned as a result of legal challenges, the unfunded actuarial liability of the System may increase by as much as \$5 billion and employer contribution rates in future biennia may be increased. The City cannot predict whether any legislation or any related actions of the PERS Board will withstand any legal challenges.

Challenges to PERS Reforms

Several cases have been filed on behalf of PERS retirees and active employees challenging changes to PERS retirement benefits that were enacted by the Legislative Assembly in the 2013 Legislative Session and 2013 Special Session. See “—Recent Developments Related to PERS.” Challenges to the PERS Bills have been filed directly with the Oregon Supreme Court. The petitioners allege that PERS Bills constitute a breach of contract as well as an impairment of contract and a taking of property rights in violation of the Oregon and United States constitutions. The Oregon Supreme Court appointed a Special Master to prepare a report and findings of fact for the Supreme Court. The Special Master’s Final Report and Recommended Findings of Fact (the “Special Master’s Report”) were presented to the Supreme Court on April 30, 2014. Upon receipt of the Special Master’s Report, the Oregon Supreme Court has issued an order to set the briefing schedule and set oral arguments on October 14, 2014. There is no required timeframe for the Oregon Supreme Court to issue its ruling in this matter. If the PERS Bills are held unconstitutional, the anticipated savings from the PERS changes that were calculated as part of the City’s FY 2013-14 budget and FY 2014-15 budget, and that are reflected in the funded status for PERS and the City in the 2012 System Valuation and the 2012 City Valuation, respectively, may not be realized.

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 FPDR Two and Three 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 FPDR Two and Three nonservice-connected disability benefits at zero to 50 percent of salary.

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. 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. The FPDR Board has directed that the disability and pension programs be audited on a five-year cycle. The disability program audit is underway now and the pension audit will be undertaken in 2015.

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 mills on each dollar of valuation of property (\$2.80 per \$1,000 of real market value) not exempt from such levy. The FPDR property tax levy has been sufficient in all years to meet required annual benefit payments. In the event that 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 2013-14 levy of \$136,383,540 required a tax rate of \$2.7822 per \$1,000 of assessed property value, or approximately \$1.6227 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. To comply with Statement No. 67 of the Government Accounting Standards Board, the 2014 valuation will use a bond market index rate as of June 30, 2014.

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 2011 City Report, the City’s allocated share of the RHIA program’s UAL is \$7,862,531 as of December 31, 2011, and according to the 2012 City Report, the City’s allocated share of the RHIA program’s UAL is \$6,539,359 as of December 31, 2012.

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 is prepared using the Entry Age Normal actuarial cost method and amortized over an open period of 30 years using the level percentage of projected pay. Other assumptions include a 3.5 percent investment rate of return, and annual healthcare cost trend rates of 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 2012-13, the annual required contribution (the “ARC”) of the employer to be recognized as the annual employer OPEB cost was \$9,566,141. For fiscal year ended June 30, 2013, the City benefits paid on behalf of retirees exceeded the premiums they paid by \$3,983,198. The City elected to not pre-fund the FY 2012-13 employer’s ARC of \$9,566,141. The amount unfunded in FY 2012-13 is \$36,399,053, which is the OPEB obligation from the beginning of the fiscal year, plus the ARC for FY 2012-13, less payments made in relation to the FY 2012-13 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.



APPENDIX G
CITY ECONOMIC CHARACTERISTICS



CITY ECONOMIC CHARACTERISTICS

The City, with an estimated population of 592,120 as of July 1, 2013, 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 2.3 million people as of July 1, 2013. 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 G-1
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
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
2013	3,919,020	592,120	2,291,650	756,530	550,990	386,080
2004-2013 Compounded Annual Rate of Change	1.0%	0.8%	1.2%	1.1%	1.5%	0.9%
2009-2013 Compounded Annual Rate of Change	0.6%	0.4%	0.8%	1.1%	1.1%	0.4%

Note: 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:

(1) 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.

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.

INCOME

Table G-2 below shows personal income and per capita income for the MSA compared to similar data for the State and nation.

Table G-2
CITY OF PORTLAND, OREGON
Total Personal Income and Per Capita Income
MSA, Oregon, and the United States

Year	Total Personal Income MSA (millions)	Per Capita Income		
		MSA	Oregon	USA
2003	\$67,310	\$33,254	\$30,144	\$32,676
2004	70,852	34,744	31,597	34,300
2005	74,482	36,028	32,542	35,888
2006	80,390	38,224	34,644	38,127
2007	84,771	39,653	35,796	39,804
2008	88,407	40,687	36,772	40,873
2009	85,922	38,936	35,621	39,357
2010	87,549	39,212	35,869	40,163
2011	93,405	41,313	37,744	42,298
2012	98,698	43,103	39,166	43,735
2003-2012 Compounded Annual Rate of Change	4.3%	2.9%	3.0%	3.3%

Source: U.S. Department of Commerce, Bureau of Economic Analysis, as of November 21, 2013.

LABOR FORCE AND UNEMPLOYMENT

Table G-3 below shows the annual average civilian labor force, employment level and unemployment level data that is available for the MSA for the period 2004 through 2013. For May 2014, the seasonally-adjusted unemployment rate for the MSA was 6.3 percent (6.1 percent not seasonally-adjusted) with a resident civilian labor force of 1,177, 359. Table G-4 below shows the seasonally-unadjusted, average annual unemployment rates for the MSA, the State and the United States for the period 2004 through 2013.

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

Year	Resident Civilian Labor Force	Unemployment		Total Employment
		Number	Percent of Labor Force	
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	55,533	4.9	1,086,839
2008	1,168,849	69,932	6.0	1,098,917
2009	1,180,614	126,805	10.7	1,053,809
2010	1,183,003	124,722	10.5	1,058,281
2011	1,188,219	109,930	9.3	1,078,289
2012	1,186,738	96,800	8.2	1,089,938
2013	1,171,479	85,290	7.3	1,086,189

Notes:

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

Source: Oregon Employment Department as of January 27, 2014.

Table G-4
CITY OF PORTLAND, OREGON
Average Annual Unemployment
MSA, Oregon, and the United States
(Not Seasonally Adjusted)

Year	MSA	State of Oregon	USA
2004	7.0%	7.3%	5.5%
2005	5.9	6.2	5.1
2006	5.0	5.3	4.6
2007	4.9	5.2	4.6
2008	6.0	6.5	5.8
2009	10.7	11.1	9.3
2010	10.5	10.7	9.6
2011	9.3	9.6	8.9
2012	8.2	8.7	8.1
2013	7.3	7.9	7.4

Source: Oregon Employment Department as of January 27, 2014.

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 G-5
CITY OF PORTLAND, OREGON
Portland-Vancouver-Beaverton, Oregon MSA
Non-Farm Wage and Salary Employment ⁽¹⁾(000)

Industry	2009	2010	2011	2012	2013
Total nonfarm employment	973,800	965,500	975,900	1,001,000	1,026,900
Total private	825,700	817,700	830,700	856,100	884,200
Manufacturing	109,100	106,700	108,300	113,000	115,600
Durable goods	81,700	79,300	81,000	84,500	86,400
Wood product manufacturing	3,700	3,500	3,400	3,200	3,500
Primary metal manufacturing	5,800	5,600	5,800	5,300	6,400
Fabricated metal manufacturing	11,100	11,100	11,300	12,400	12,700
Machinery manufacturing	7,000	7,000	7,400	8,500	8,400
Computer/electronic manufacturing	33,900	33,200	34,300	35,300	35,300
Transportation equipment manufacturing	7,000	6,300	6,500	7,000	7,000
Nondurable goods	27,400	27,300	27,400	28,500	29,100
Food manufacturing	9,100	9,300	9,500	10,100	11,200
Paper manufacturing	3,900	3,600	3,300	3,200	3,300
Non-Manufacturing	716,900	711,100	722,600	743,100	768,600
Construction and mining	50,600	45,800	46,000	50,700	52,000
Trade, transportation, and utilities	189,700	186,700	190,600	194,600	197,800
Wholesale Trade	54,400	52,500	53,000	56,200	57,400
Retail trade	101,100	101,100	103,800	104,900	106,400
Transportation, warehousing, and utilities	34,200	33,100	33,900	33,500	34,000
Information	22,900	22,300	22,200	22,100	22,900
Financial activities	63,800	61,800	62,100	61,800	62,800
Professional and business services	124,900	126,600	129,700	133,300	144,900
Educational and health services	135,200	139,000	143,200	144,700	147,800
Leisure and hospitality	94,500	93,900	94,700	101,400	103,000
Other services	35,300	35,000	34,100	34,500	37,400
Government	148,100	147,800	145,200	144,900	142,700

Notes:

(1) Totals may not sum due to rounding.

Source: State of Oregon, Employment Department as of January 27, 2014.

Table G-6
CITY OF PORTLAND, OREGON
Major Employers in the MSA

Employer	Product or Service	Estimated Employment
Private Employers		
Intel Corporation	Computer and electronic products	16,700
Providence Health System	Health care & health insurance	14,132
Fred Meyer Stores	Grocery & retail variety chain	10,176
Kaiser Foundation of the Northwest	Health care	9,896
Legacy Health System	Health care	9,835
Nike Inc.	Sports shoes and apparel	7,000
Wells Fargo	Bank	4,794
U.S. Bank	Bank & holding company	4,000
Southwest Washington Medical Center	Health care	3,300
Daimler Trucks North America	Heavy duty trucks	2,800
New Seasons Market	Grocery	2,400
Target Corp.	Retail	2,173
The Standard	Insurance	2,105
Public Employers		
Oregon Health and Science University	Health care & education	14,106
U.S. Federal Government	Federal government	13,900
City of Portland	Government	9,318
State of Oregon	State government	7,559
Evergreen School District	Education	6,500
Portland School District	Education	6,500
Multnomah County	Government	4,400
Beaverton School District	Education	4,000
Portland State University	Education	3,749
Portland Community College	Education	3,372
Vancouver School District	Education	3,200
TriMet	Mass transit	2,550

Source: Portland Business Journal, July 12, 2013.

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 continues to improve with positive strides in the regional economy, according to Cushman & Wakefield in their publication *Marketbeat—Industrial Snapshot, Portland, OR, Q1 2014*. Cushman & Wakefield report overall vacancy rates for the first quarter 2014 of 6.1 percent, down from the first quarter 2013 rate of 7.4 percent. The first quarter 2014 vacancy rate also is improved relative to the fourth quarter 2013 rate of 6.4 percent. Areas showing the strongest absorption were Columbia Boulevard, Rivergate, and the Hillsboro/Sunset corridor. Cushman & Wakefield note that rental rates are gradually increasing throughout the Portland market, with overall net absorption of approximately 153,736 square feet through the first quarter of 2014. A total of 1,037,385 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.

Portland’s strengthening economy is also having a positive effect on its office market, as reported in *Marketbeat—Office Snapshot, Portland, OR, Q1 2014* prepared by Cushman & Wakefield. The first quarter overall vacancy rate for the Portland region was 12.5 percent, down from the first quarter 2013 vacancy rate of 13.3 percent, and also down slightly from the fourth quarter 2013 vacancy rate of 12.6%. Cushman & Wakefield report that the central business district as one of the lowest vacancy rates in the nation at 11.3 percent overall. Overall absorption in the central business district totaled a negative 56,441 square feet for the first quarter of 2014. The suburban market was weaker, with a first quarter 2014 overall vacancy rate of 13.9 percent. Class A office space in the downtown continues to fare better than the rest of the market, with asking rents averaging \$27.04 per square foot compared to \$23.78 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 April 2014 was \$280,000, up 8.9 percent from the April 2013 year-to-date price of \$257,000, according to the Realtors Metropolitan Area Multiple Listing Service (“RMLS”). Through April 2014, homes in the Portland metropolitan area were on the market an average of 88 days during the year. According to RMLS, through April 2014, the Southeast, West Portland, and Northeast regions were the most active residential real estate areas, with 905, 796, and 676 closed sales, respectively. Portland metropolitan area closed sales year-to-date were up 0.8 percent from the same period in 2013.

The table below compares the median home sale price for the first quarter of 2013 and 2014 in the Portland metropolitan region and with the nation.

**Table G-7
(U.S. and Portland Metropolitan Area)**

Region	1st Quarter 2013	1st Quarter 2014	Percent Change
U.S.	\$176,400	\$191,600	8.6%
Portland Metro. Area	246,500	271,900	10.3%

Source: National Association of Realtors and RMLS.

The market for condominiums has rebounded, and shows growth that is higher than the nation for the first quarter of 2014 as shown in the table below.

**Table G-8
CITY OF PORTLAND, OREGON
Median Condo/Coop Sale Price
(U.S. and Portland Metropolitan Area)**

Region	1st Quarter 2013	1st Quarter 2014	Percent Change
U.S.	\$172,100	\$191,400	10.8%
Portland Metro. Area	160,800	181,400	12.8%

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 Portland are shown below.

**Table G-9
CITY OF PORTLAND, OREGON
New Single-family and Multi-family
Residential Construction Permits**

Year	New Single Family		New Multi-Family	
	No. of Permits	Value	No. of Permits	Value
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
2012	644	148,883,319	64	166,493,454
2013	763	181,106,655	105	286,152,929

Source: U.S. Census Bureau as of March 27, 2014.

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 Columbia River ship channel extends from the Portland Harbor to the Pacific Ocean 110 miles downstream. 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.

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 2013, 514 ocean-going vessels made calls at Port facilities. Total maritime tonnage in 2013 decreased by 3.4 percent to 12.35 million short tons in 2013 compared to 12.35 million in 2012.

PDX handled approximately 15.0 million passengers in 2013, 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 2013, 212,414 short tons of cargo and 6,927 short tons of mail were handled by PDX. Portland is also served by three publicly operated general aviation airports located in the suburban areas.

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.

Two major railroads—the Burlington Northern Santa Fe and Union Pacific—plus the Amtrak passenger train system serve the Portland metropolitan area.

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 2012 through June 2013, passengers boarded a TriMet fixed-route bus or train approximately 99 million times.

TriMet's light rail system ("MAX") connects downtown Portland with the cities of Gresham, Beaverton and Hillsboro, as well as North/Northeast Portland, Clackamas Town Center, and PDX. TriMet also provides commuter rail service between Beaverton and Wilsonville. 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.

The Portland Streetcar connects South Waterfront area along the Willamette River, the Pearl District and Northwest Portland, the Lloyd District in northeast Portland and the Central Eastside district. The Portland Streetcar is owned and operated by the City, and has entered into contracts with TriMet for train operators and mechanics. The next phase in the Portland Streetcar construction will be the "Close the Loop" project. This project will connect the Portland Streetcar to the TriMet Portland-Milwaukie light rail line bridge on both sides of the Willamette River, closing the southern end of the Loop. The "Close the

Loop” project is scheduled to open in the fall of 2015 in conjunction with the opening of the Portland-Milwaukie Light Rail Project.

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. Providence Park (formerly JELD-WEN Field) has been 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 2013 term was approximately 28,766 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 Fall 2013 was approximately 1,834 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 592,000 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 percent of the State’s Gross Farm and Ranch Sales based on 2012 estimates from the publication entitled *2012-13 Oregon Agriculture & Fisheries Statistics* dated as of December 2013 and published cooperatively by the U.S. Department of Agriculture and the Oregon Department of Agriculture. The 2012 Gross Farm and Ranch Sales in Clackamas County was \$343,513,000; Washington County was \$292,044,000; Yamhill County was \$269,839,000; Multnomah County was \$56,774,000; and Columbia County was \$26,512,000 as estimated by the Oregon State University Extension Service.



APPENDIX H
LEGAL OPINIONS



On the date of issuance of the Bonds, Hawkins Delafield & Wood LLP, Bond Counsel, proposes to issue its approving opinion in substantially the following form:

August 14, 2014

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

Subject: \$86,165,000 City of Portland, Oregon,
First Lien Sewer System Revenue Refunding Bonds, 2014 Series A

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Portland, Oregon (the "City") of its First Lien Sewer System Revenue Refunding Bonds, 2014 Series A (the "2014 Series A Bonds"), which are dated as of their date of delivery and are in the aggregate principal amount of \$86,165,000. The 2014 Series A Bonds are issued pursuant to City Ordinance No. 186640 enacted by the City Council on June 11, 2014 (the "Ordinance"), City Ordinance No. 160276, as amended, supplemented and clarified (the "First Lien Bond Ordinance"), and a Bond Declaration dated as of the date of delivery of the 2014 Series A Bonds ("the Bond Declaration" and collectively with the First Lien Bond Ordinance, 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 2014 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.

The City's \$204,220,000 Second Lien Sewer System Revenue Bonds, 2014 Series B (the "2014 Series B Bonds") are treated, together with the 2014 Series A Bonds, as a single issue for Federal tax purposes. We have served as bond counsel with respect to the issuance of the 2014 Series B Bonds and, on the date hereof, have rendered our opinion with respect to the exclusion of interest on the 2014 Series B Bonds from gross income for Federal income tax purposes in substantially the form of paragraph 3 below and subject to the same conditions and limitations set forth herein. Noncompliance with such conditions and limitations may cause interest on both the 2014 Series A Bonds and the 2014 Series B Bonds to become subject to Federal income taxation retroactive to the date of issue, irrespective of the date on which such noncompliance occurs or is ascertained.

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

1. The 2014 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 2014 Series A Bonds constitute valid and legally binding obligations of the City that are enforceable in accordance with their terms.

2. The 2014 Series A Bonds are special obligations of the City that are secured solely by a first lien on, and payable solely from, the Net Revenues of the City's Sewer System and related amounts that are pledged 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 2014 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 2014 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 2014 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 2014 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 2014 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 2014 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 2014 Series A Bonds in order that, for Federal income tax purposes, interest on the 2014 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 2014 Series A Bonds, restrictions on the investment of proceeds of the 2014 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 2014 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 2014 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 covenants 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 2014 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 2014 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 2014 Series A Bonds is exempt from Oregon personal income tax.

We note that the City has not designated 2014 Series A the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code.

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 2014 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 2014 Series A Bonds.

The portion of this opinion that is set forth in paragraph 1, above, is qualified only to the extent that enforceability of the 2014 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 2014 Series A Bonds and have not represented any other party in connection with the 2014 Series A Bonds. This opinion is given solely for the benefit of the City in connection with the 2014 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 2014 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,

On the date of issuance of the Bonds, Hawkins Delafield & Wood LLP, Bond Counsel, proposes to issue its approving opinion in substantially the following form:

August 14, 2014

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

Subject: \$204,220,000 City of Portland, Oregon,
Second Lien Sewer System Revenue Bonds, 2014 Series B

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Portland, Oregon (the "City") of its Second Lien Sewer System Revenue Bonds, 2014 Series B (the "2014 Series B Bonds"), which are dated as of their date of delivery and are in the aggregate principal amount of \$204,220,000. The 2014 Series B Bonds are issued pursuant to City Ordinance No. 186640 enacted by the City Council on June 11, 2014 (the "Ordinance"), an Amended Master Second Lien Sewer System Revenue Bond Declaration dated as of June 19, 2003 (the "Master Second Lien Bond Declaration"), and a Supplemental Bond Declaration dated as of the date of delivery of the 2014 Series B Bonds ("the 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 2014 Series B 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.

The City's \$86,165,000 First Lien Sewer System Revenue Refunding Bonds, 2014 Series A (the "2014 Series A Bonds") are treated, together with the 2014 Series B Bonds, as a single issue for Federal tax purposes. We have served as bond counsel with respect to the issuance of the 2014 Series A Bonds and, on the date hereof, have rendered our opinion with respect to the exclusion of interest on the 2014 Series A Bonds from gross income for Federal income tax purposes in substantially the form of paragraph 3 below and subject to the same conditions and limitations set forth herein. Noncompliance with such conditions and limitations may cause interest on both the 2014 Series A Bonds and the 2014 Series B Bonds to become subject to Federal income taxation retroactive to the date of issue, irrespective of the date on which such noncompliance occurs or is ascertained.

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

1. The 2014 Series B 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 2014 Series B Bonds constitute valid and legally binding obligations of the City that are enforceable in accordance with their terms.

2. The 2014 Series B Bonds are special obligations of the City that are secured solely by a subordinate lien on, and payable solely, from the Net Revenues of the City's Sewer 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 2014 Series B 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 2014 Series B 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 2014 Series B 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 2014 Series B 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 2014 Series B 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 2014 Series B 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 2014 Series B Bonds in order that, for Federal income tax purposes, interest on the 2014 Series B 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 2014 Series B Bonds, restrictions on the investment of proceeds of the 2014 Series B 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 2014 Series B 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 2014 Series B 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 covenants 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 2014 Series B 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 2014 Series B 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 2014 Series B Bonds is exempt from Oregon personal income tax.

We note that the City has not designated 2014 Series B the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code.

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 2014 Series B 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 2014 Series B Bonds.

The portion of this opinion that is set forth in paragraph 1, above, is qualified only to the extent that enforceability of the 2014 Series B 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 2014 Series B Bonds and have not represented any other party in connection with the 2014 Series B Bonds. This opinion is given solely for the benefit of the City in connection with the 2014 Series B 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 2014 Series B 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,

APPENDIX I
CONTINUING DISCLOSURE CERTIFICATE



CONTINUING DISCLOSURE CERTIFICATE

City of Portland, Oregon

\$86,165,000 First Lien Sewer System Revenue Refunding Bonds, 2014 Series A \$204,220,000 Second Lien Sewer System Revenue Bonds, 2014 Series B

This Continuing Disclosure Certificate (the “Certificate”) is executed and delivered by the City of Portland, Oregon (the “City”) in connection with the issuance of the City’s First Lien Sewer System Revenue Refunding Bonds, 2014 Series A and the City’s Second Lien Sewer System Revenue Bonds, 2014 Series B (collectively, the “Bonds”).

Section 1. Purpose of Certificate. 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. Definitions. Unless the context otherwise requires, the terms defined in this Section shall, for purposes of this Certificate, have the meanings herein specified.

“Beneficial Owner” means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any 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 August 5, 2014.

“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. Financial Information. 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 for the Bonds under the heading "Sewer System Financial and Operating Information" and in Appendix F: "City Operating and Financial Information" in the Official Statement for the Bonds.

Section 4. Timing. 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, 2015, for the fiscal year ended June 30, 2014. The City's current fiscal year ends June 30. The City may adjust its 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. Material Events. The City will 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. Failure to File Annual Financial Information. 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. Termination. 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. Amendment. 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. Bondowner's Remedies Under This Certificate. 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. Form of Information. All information required to be provided under this certificate will be provided in an electronic format as prescribed by the MSRB.

Section 11. Submitting Information Through EMMA. So long as the MSRB continues to approve the use of the Electronic Municipal Market Access ("EMMA") continuing disclosure service, any information required to be provided to the MSRB under this Certificate may be provided through EMMA. As of the date of this Certificate, the web portal for EMMA is emma.msrb.org.

Section 12. Dissemination Agent. The City may, from time to time, engage or appoint an agent to assist the City in disseminating information hereunder (the "Dissemination Agent"). The City may discharge any Dissemination Agent with or without appointing a successor Dissemination Agent.

Section 13. Choice of Law. This Certificate shall be governed by and construed in accordance with the laws of the State of Oregon, provided that to the extent this Certificate addresses matters of federal securities laws, including the Rule, this Certificate shall be construed in accordance with such federal securities laws and official interpretations thereof.

Dated as of the 14th day of August, 2014.

City of Portland, Oregon

Debt Manager



APPENDIX J
BEO SYSTEM



BEO SYSTEM

DTC LANGUAGE DESCRIBING BOOK-ENTRY-ONLY ISSUANCE (Prepared by DTC—bracketed material may be applicable only to certain issues)

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]
2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 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.



