

**PRELIMINARY OFFICIAL STATEMENT DATED JULY 27, 2011**

**NEW ISSUE – Negotiated  
BOOK-ENTRY ONLY**

**RATING: Moody's A2**

*In the opinion of K&L Gates LLP, Portland, Oregon, Bond Counsel to the City ("Bond Counsel"), interest on the 2011 Series A Bonds is not excludable from gross income for federal income tax purposes. Assuming compliance with certain covenants of the City, interest on the 2011 Series B Bonds is excludable from gross income for federal income tax purposes under existing law and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on either individuals or corporations. See "TAX MATTERS" herein for a discussion of the opinion of Bond Counsel. In the opinion of Bond Counsel, interest on the 2011 Bonds is exempt from State of Oregon personal income taxation under existing law.*

**City of Portland, Oregon**

**\$27,100,000\***  
**Interstate Corridor  
Urban Renewal and  
Redevelopment Bonds  
2011 Series A  
(Federally Taxable)**

**\$17,770,000\***  
**Interstate Corridor  
Urban Renewal and  
Redevelopment Bonds  
2011 Series B  
(Tax Exempt)**

**BASE CUSIP \_\_\_\_\_**

**DATED:** Date of Delivery

**DUE:** June 15, as shown on the reverse hereof

The Interstate Corridor Urban Renewal and Redevelopment Bonds, 2011 Series A (Federally Taxable) (the "2011 Series A Bonds") and the Interstate Corridor Urban Renewal and Redevelopment Bonds, 2011 Series B (Tax Exempt) (the "2011 Series B Bonds") (collectively, the "2011 Bonds"), will be issued in registered book-entry only form, without coupons, in denominations of \$5,000 or integral multiples thereof. The 2011 Bonds, when executed and delivered, will be registered in the name of Cede & Co., as the registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2011 Bonds. While Cede & Co. is the registered owner of the 2011 Bonds (the "Owner") as nominee of DTC, references herein to the Bond Owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the 2011 Bonds. See APPENDIX H—"BOOK-ENTRY SYSTEM" herein.

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

Interest on the 2011 Bonds is payable semi-annually on June 15 and December 15 of each year, beginning December 15, 2011. While the 2011 Bonds are in book-entry form, interest on the 2011 Bonds will be paid through DTC. See APPENDIX H—"BOOK-ENTRY SYSTEM" herein.

The 2011 Bonds are being issued to pay the outstanding balance on a line of credit established to provide interim financing for projects in the Interstate Corridor Urban Renewal Area (the "Area"), to fund the 2011 Reserve Subaccount Funding Requirement, and to pay issuance costs.

THE 2011 BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE CITY WHICH ARE SECURED SOLELY BY AND PAYABLE SOLELY FROM THE DIVIDE THE TAXES REVENUES FOR THE INTERSTATE CORRIDOR URBAN RENEWAL AREA AND THE EARNINGS THEREON (THE "INTERSTATE CORRIDOR TAX INCREMENT REVENUES"), AND ALL AMOUNTS IN THE 2011 BOND RESERVE SUBACCOUNT, INCLUDING AMOUNTS AVAILABLE FROM ANY 2011 RESERVE CREDIT FACILITY (COLLECTIVELY, THE "SECURITY") AS PROVIDED IN THE BOND DECLARATION. THE 2011 BONDS ARE NOT GENERAL OBLIGATIONS OF THE CITY OR THE COMMISSION, AND ARE NOT SECURED BY OR PAYABLE FROM ANY FUNDS OR REVENUES OF THE CITY OR THE COMMISSION EXCEPT THE SECURITY.

The 2011 Bonds are subject to redemption prior to maturity. See "THE 2011 BONDS—REDEMPTION OF THE 2011 BONDS" herein.

*The 2011 Bonds are offered when, as and if issued by the City and accepted by the Underwriters, subject to prior sale, withdrawal or modification of the offer without notice, to the final approving opinion of K & L Gates LLP, Bond Counsel, Portland, Oregon, and to certain other conditions. Certain legal matters will be passed upon for the Underwriters by their Counsel, Orrick, Herrington & Sutcliffe LLP, Portland, Oregon. The City expects that the 2011 Bonds will be available for delivery through the facilities of DTC in New York, New York on or about \_\_\_\_\_, 2011.*

**BofA Merrill Lynch**

**Citigroup**

\* Preliminary, subject to change.

## **MATURITY SCHEDULES**

**\$27,100,000\***

**Interstate Corridor**

**Urban Renewal and Redevelopment Bonds**

**2011 Series A (Federally Taxable)**

<b><u>Due June 15</u></b>	<b><u>Principal Amount</u></b>	<b><u>Interest Rate</u></b>	<b><u>Price or Yield</u></b>	<b><u>CUSIP Number (1)</u></b>
2012	\$1,735,000	%	%	
2013	1,420,000			
2014	1,460,000			
2015	1,505,000			
2016	1,565,000			
2017	1,630,000			
2018	1,710,000			
2019	1,795,000			
2020	1,895,000			
2021	2,005,000			

\$10,380,000 \_\_\_\_% Term Bonds, due June 15, 2026; Yield \_\_\_\_%

CUSIP Number(1):

**\$17,770,000\***

**Interstate Corridor**

**Urban Renewal and Redevelopment Bonds**

**2011 Series B (Tax Exempt)**

<b><u>Due June 15</u></b>	<b><u>Principal Amount</u></b>	<b><u>Interest Rate</u></b>	<b><u>Price or Yield</u></b>	<b><u>CUSIP Number (1)</u></b>
2026	\$1,755,000	%	%	
2027	2,900,000			
2028	3,045,000			
2029	3,195,000			
2030	3,355,000			
2031	3,520,000			

- (1) Registered Trademark 2011, American Bankers Association. CUSIP data is provided by Standard & Poor's CUSIP Service Bureau, a division of McGraw Hill Companies.

---

\*Preliminary, subject to change.

**OFFICIAL STATEMENT  
OF THE  
CITY OF PORTLAND, OREGON**

**\$27,100,000\***  
**Interstate Corridor  
Urban Renewal and  
Redevelopment Bonds  
2011 Series A Bonds  
(Federally Taxable)**

**\$17,770,000\***  
**Interstate Corridor  
Urban Renewal and  
Redevelopment Bonds  
2011 Series B Bonds  
(Tax Exempt)**

**CITY COUNCIL**

Sam Adams,  
Mayor and Commissioner of Finance and Administration

Amanda Fritz, Commissioner No. 1  
Nick Fish, Commissioner No. 2  
Dan Saltzman, Commissioner No. 3  
Randy Leonard, Commissioner No. 4

**CITY OFFICIALS**

LaVonne Griffin-Valade, City Auditor  
Eric H. Johansen, City Treasurer  
Linda Meng, City Attorney  
  
Jack D. Graham, Chief Administrative Officer  
Richard F. Goward, Jr., Chief Financial Officer

**PORTLAND DEVELOPMENT COMMISSION**

Scott Andrews, Commissioner and Chair  
John C. Mohlis, Commissioner and Secretary  
Charles A. Wilhoite, Commissioner  
Steven Straus, Commissioner  
Aneshka Colas-Dickson, Commissioner

Patrick Quinton, Executive Director  
Julie V. Cody, Central Services Director & Chief Financial Officer

**BOND COUNSEL**

K & L Gates LLP  
Portland, Oregon

---

\* Preliminary, subject to change.

No dealer, broker, salesperson or other person has been authorized by the City of Portland (the "City") to give any information or to make any representations, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. Bond Counsel's review of this document is limited; see "LEGAL MATTERS" herein. This Official Statement has been deemed final as of its date by the City pursuant to Rule 15c2-12 of the Securities Exchange Act of 1934, as amended.

This Official Statement speaks only as of its date, and the information contained herein is subject to change without notice. Certain statements contained in this Official Statement are projections, forecasts and other statements about future events. These statements ("Forward Looking Statements") are not statements of historical facts, and no assurance can be given that the results shown in these Forward Looking Statements will be achieved. See "FORWARD LOOKING STATEMENTS." All estimates set forth herein have been made on the best information available and are believed to be reliable, but no representations whatsoever are made that such estimates are correct. So far as any statements herein involve any matters of opinion, whether or not expressly so stated, they are intended merely as such and are not representations of fact.

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

This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of, the 2011 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. In making an investment decision, potential investors must rely on their own examination of the City and the terms of the offering, including the merits and risks involved. These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this Official Statement. Any representation to the contrary is a criminal offense. **In connection with this offering, the Underwriters may over allot or effect transactions which stabilize or maintain the market price of the 2011 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.**

## TABLE OF CONTENTS

<b>INTRODUCTION</b>	<b>1</b>
<b>THE 2011 BONDS</b>	<b>2</b>
DESCRIPTION	2
AUTHORIZATION AND PURPOSE	2
FORM	2
MATURITY AND PAYMENT	2
REDEMPTION OF THE 2011 BONDS*	3
DEFEASANCE	5
ESTIMATED SOURCES AND USES OF BOND PROCEEDS	5
<b>SECURITY FOR THE 2011 BONDS</b>	<b>7</b>
PLEDGE OF DIVIDE THE TAXES REVENUES AND RESERVE SUBACCOUNTS	7
DIVIDE THE TAXES REVENUES AND INCREMENTAL ASSESSED VALUE	7
MAXIMUM INDEBTEDNESS	7
OTHER COVENANTS	8
FUNDS AND ACCOUNTS	9
PARITY INDEBTEDNESS	10
SUBORDINATE INDEBTEDNESS	11
AMENDMENTS, DEFAULTS, AND REMEDIES	11
<b>THE INTERSTATE CORRIDOR URBAN RENEWAL AREA</b>	<b>13</b>
DESCRIPTION AND PURPOSE	13
HISTORIC COMMISSION INVESTMENT IN THE AREA	16
PLANNED COMMISSION ACTIVITIES IN THE AREA	17
<b>AREA PROPERTY VALUES, TAX INCREMENT REVENUES, AND INDEBTEDNESS</b>	<b>20</b>
OREGON'S PROPERTY TAX SYSTEM AND ASSESSED VALUES	20
HISTORICAL TRENDS IN REAL MARKET VALUES AND ASSESSED VALUES	20
PROJECTIONS OF FUTURE REAL MARKET VALUE AND ASSESSED VALUE	25
PROPERTY TAX RATES	27
OTHER FACTORS AFFECTING DIVIDE THE TAXES REVENUES	29
HISTORICAL AND PROJECTED TAX INCREMENT REVENUES AND DEBT SERVICE	30
OUTSTANDING INDEBTEDNESS	33
MAXIMUM INDEBTEDNESS	34
<b>RISKS TO BOND OWNERS</b>	<b>35</b>
GENERAL	35
RECEIPT OF INTERSTATE CORRIDOR TAX INCREMENT REVENUES	35
DECLINES IN PROPERTY TAX RATES	35
DECLINES IN ASSESSED VALUE OF PROPERTY IN THE AREA DUE TO MARKET FACTORS	35
DECLINES IN ASSESSED VALUE OF PROPERTY IN THE AREA DUE TO OTHER FACTORS	36
MEASURE 5 COMPRESSION	36
<b>PROPERTY TAX AND VALUATION INFORMATION</b>	<b>37</b>
SECTION 11	37
SECTION 11B	38
LOCAL OPTION LEVIES	38
ELIGIBLE ELECTIONS	38
GENERAL OBLIGATION BONDS	38
COLLECTION	39
PROPERTY TAX EXEMPTION PROGRAMS	39
<b>CITY ECONOMIC CHARACTERISTICS</b>	<b>41</b>
PORTLAND-VANCOUVER-BEAVERTON METROPOLITAN STATISTICAL AREA	41
POPULATION	42
INCOME	43
EMPLOYMENT BY INDUSTRY	45
REAL ESTATE	47
TRANSPORTATION AND DISTRIBUTION	49
TOURISM, RECREATION AND CULTURAL ATTRACTIONS	50
HIGHER EDUCATION	50
UTILITIES	51

AGRICULTURE.....	51
<b>THE INITIATIVE PROCESS .....</b>	<b>52</b>
PROCESS FOR QUALIFYING STATE-WIDE INITIATIVES TO BE PLACED ON THE BALLOT.....	52
FUTURE STATE-WIDE INITIATIVE MEASURES .....	53
LOCAL INITIATIVES .....	53
<b>TAX MATTERS.....</b>	<b>53</b>
FEDERAL INCOME TAX .....	53
OREGON PERSONAL INCOME TAX .....	55
<b>ERISA CONSIDERATIONS .....</b>	<b>56</b>
<b>RATING.....</b>	<b>56</b>
<b>UNDERWRITING .....</b>	<b>56</b>
<b>FORWARD LOOKING STATEMENTS .....</b>	<b>57</b>
<b>LEGAL MATTERS .....</b>	<b>57</b>
<b>LITIGATION .....</b>	<b>57</b>
<b>CERTIFICATE WITH RESPECT TO OFFICIAL STATEMENT .....</b>	<b>57</b>
<b>MISCELLANEOUS.....</b>	<b>58</b>
<b>CONTINUING DISCLOSURE .....</b>	<b>58</b>
<b>CONCLUDING STATEMENT .....</b>	<b>58</b>
<b>APPENDICES</b>	
A: MASTER BOND DECLARATION	
B: FIRST SUPPLEMENTAL BOND DECLARATION	
C: AUDITED FINANCIAL STATEMENTS	
D: CITY OPERATING AND FINANCIAL INFORMATION	
E: CONSULTANT REPORT –DIVIDE THE TAXES REVENUE PROJECTIONS	
F: LEGAL OPINION	
G: CONTINUING DISCLOSURE CERTIFICATE	
H: BOOK-ENTRY SYSTEM	
I: THE PORTLAND DEVELOPMENT COMMISSION	

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

**\$27,100,000\***

**INTERSTATE CORRIDOR  
URBAN RENEWAL AND  
REDEVELOPMENT BONDS  
2011 SERIES A BONDS  
(FEDERALLY TAXABLE)**

**\$17,770,000\***

**INTERSTATE CORRIDOR  
URBAN RENEWAL AND  
REDEVELOPMENT BONDS  
2011 SERIES B BONDS  
(TAX EXEMPT)**

**INTRODUCTION**

This Official Statement provides information concerning the City of Portland, Oregon (the “City”), the Portland Development Commission (the “Commission” or “PDC”), the Interstate Corridor Urban Renewal Area (the “Area”), the urban renewal plan established for the Area (the “Plan”), the tax increment revenues for the Area, and the City’s Interstate Corridor Urban Renewal and Redevelopment Bonds, 2011 Series A (Federally Taxable) (the “2011 Series A Bonds”) and Interstate Corridor Urban Renewal and Redevelopment Bonds, 2011 Series B (Tax Exempt) (the “2011 Series B Bonds and collectively with the 2011 Series A Bonds, the “2011 Bonds”). The 2011 Bonds will be issued in accordance with City Ordinance No. 184212 adopted by the City Council on November 3, 2010 (the “Ordinance”), which authorizes the issuance of the 2011 Bonds.

The Debt Manager executed a bond declaration (the “Master Bond Declaration”) on December 9, 2004, which memorializes terms under which the City may issue obligations (see “SECURITY FOR THE 2011 BONDS—PARITY INDEBTEDNESS” and “—SUBORDINATE INDEBTEDNESS”) which have a lien on the tax increment revenues of the Area. The City’s Debt Manager will also execute and deliver the First Supplemental Bond Declaration dated as of the closing date of the 2011 Bonds (the “First Supplemental Bond Declaration”) to establish the specific terms and conditions of the 2011 Bonds which are issued as Parity Indebtedness under the Master Bond Declaration. The body of this Official Statement briefly summarizes many of the provisions of the Master Bond Declaration and the First Supplemental Bond Declaration (collectively, the “Bond Declaration”) and does not purport to be complete. Reference should be made to the Master Bond Declaration found in Appendix A and the proposed form of the First Supplemental Bond Declaration which is found in Appendix B for full and complete details of their proposed contents. Capitalized terms that are used but not defined in the body of this Official Statement have the meanings defined for those terms in the Bond Declaration.

The Master Bond Declaration includes requirements for amendments with and without written consents of the Owners. In the First Supplemental Bond Declaration, the City has reserved the right to amend the Master Bond Declaration and any Supplemental Bond Declaration to provide for certain matters as described herein and in Appendix B. By purchase and acceptance of the 2011 Bonds, the Owners of the 2011 Bonds will be deemed to have irrevocably consented to the amendments to the Bond Declaration as described herein and as set forth in Appendix B. See “SECURITY FOR THE 2011 BONDS—Proposed Amendments” and Appendix B—FIRST SUPPLEMENTAL BOND DECLARATION—Amendments to Master Declaration.”

---

\*Preliminary, subject to change.

## **THE 2011 BONDS**

### **DESCRIPTION**

The 2011 Bonds will be issued in registered book-entry-only (“BEO”) form only, without coupons, in denominations of \$5,000 or integral multiples thereof. The 2011 Bonds, when executed and delivered, will be registered in the name of Cede & Co. as the registered owner and nominee for the Depository Trust Company, New York, New York (“DTC”). Interest on the 2011 Bonds is payable semi-annually on June 15 and December 15 of each year beginning December 15, 2011. While the 2011 Bonds are in BEO form, principal of and interest on the 2011 Bonds will be paid through DTC. See “BOOK-ENTRY SYSTEM” found in Appendix H.

### **AUTHORIZATION AND PURPOSE**

The 2011 Bonds are being issued under the authority of Article IX, Section 1c and Article XI, Section 11(16) of the Oregon Constitution, Oregon Revised Statutes Chapter 457 and the City Charter. The Ordinance also authorizes the 2011 Bonds and the First Supplemental Bond Declaration.

The 2011 Bonds are being issued to pay the outstanding balance on a line of credit, to fund the 2011 Reserve Funding Requirement, and to pay issuance costs.

### **FORM**

The 2011 Bonds will be issued in fully-registered form without coupons in denominations of \$5,000 or integral multiples thereof. The 2011 Bonds will be issued subject to the BEO System of registration, transfer and payment operated by DTC, and will be subject in all respects to the rules, regulations and agreements pertaining to such BEO System. In accordance with the BEO System, the 2011 Bonds, when executed and delivered, will be registered in the name of Cede & Co., as registered owner and nominee for DTC. Purchasers of the 2011 Bonds who are the Beneficial Owners thereof will not receive certificates evidencing their ownership interests in the 2011 Bonds. While Cede & Co. is the registered Owner of the 2011 Bonds (in such capacity, the “Owner”) as nominee of DTC, it shall be treated in all respects as the sole Owner of the 2011 Bonds and shall have the right to exercise (in lieu of the Beneficial Owners of the 2011 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 2011 Bonds under the Bond Declaration or applicable law. So long as the 2011 Bonds are subject to the BEO System, all registrations and transfers of Beneficial Ownership of the 2011 Bonds will be made only through the BEO System. See Appendix H herein, for a discussion of the BEO System.

### **MATURITY AND PAYMENT**

The 2011 Bonds mature on June 15 of the years and in the aggregate principal amounts set forth on the inside cover page of this Official Statement and will bear interest from their date of delivery. Accrued and unpaid interest on the 2011 Bonds will be due and payable semiannually on June 15 and December 15 of each year, commencing December 15, 2011.

So long as the 2011 Bonds are subject to the BEO System, all payments of the principal of and interest on the 2011 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 2011 Bonds. The City has no responsibility for the distribution of any payments on the 2011 Bonds by DTC to any DTC Participant or by any DTC Participant to any Beneficial Owner, and shall have no liability whatsoever in the event of any failure by DTC or a DTC Participant to make any such distribution. See “BOOK-ENTRY SYSTEM” in Appendix H herein.



## **REDEMPTION OF THE 2011 BONDS\***

### **Redemption of the 2011 Series A Bonds (Federally Taxable)**

Par Optional Redemption – 2011 Series A Bonds. The 2011 Series A Bonds maturing on or after June 15, 20\_\_\_ are subject to optional redemption at the election of the City, prior to their respective maturity dates, on any date on or after June 15, 20\_\_\_, in whole or in part (and if in part, from the maturities selected by the City and by lot within a maturity in integral multiples of \$5,000), at a redemption price equal to 100 percent of the principal amount thereof, plus accrued but unpaid interest to the date fixed for redemption, from amounts deposited with the Paying Agent by the City and from any other funds available therefor.

Make-Whole Optional Redemption – 2011 Series A Bonds. The 2011 Series A Bonds are subject to optional redemption at the election of the City, prior to their stated maturity dates, as a whole or in part (and if in part, from the maturities selected by the City and by lot within a maturity in integral multiples of \$5,000), on any business day, at the “Make-Whole Redemption Price,” plus accrued and unpaid interest on the 2011 Series A Bonds of any Series to be prepaid on the date fixed for redemption.

The “Make-Whole Redemption Price” is the greater of (i) 100 percent of the principal amount of the Series of 2011 Series A Bonds to be redeemed and (ii) the sum of the present value of the remaining scheduled payments of principal and interest on the Series of 2011 Series A Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Series of 2011 Series A Bonds are to be redeemed, discounted to the date on which the Series of 2011 Series A Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the “Treasury Rate” defined below, plus \_\_\_ basis points.

“Treasury Rate” means, with respect to any redemption date for a particular 2011 Series A Bond, the rate per annum, expressed as a percentage of the principal amount, equal to the semi-annual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

“Comparable Treasury Issue” means the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the 2011 Series A Bonds to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the 2011 Series A Bonds to be redeemed.

“Comparable Treasury Price” means, with respect to any redemption date for a particular 2011 Series A Bond:

- (1) the most recent yield data for the applicable U.S. Treasury maturity index from the Federal Reserve Statistical Release H.15 Daily Update (or any comparable or successor publication) reported, as of 11:00 a.m. New York City time, on the Valuation Date; or
- (2) if the yield described in (1) above is not reported as of such time or the yield reported as of such time is not ascertainable, the average of four Reference Treasury Dealer Quotations for that redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all quotations obtained by the Designated Investment Banker.

“Designated Investment Banker” means one of the Reference Treasury Dealers appointed by the City.

“Reference Treasury Dealer” means each of four firms, specified by the City from time to time, that are primary United States Government securities dealers in the City of New York (each, a “Primary Treasury Dealer”); provided, that if any of them ceases to be a Primary Treasury Dealer, the City is to substitute another Primary Treasury Dealer.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date for a particular 2011 Series A Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the Valuation Date.

---

\*Preliminary, subject to change.

“Valuation Date” means a date that is no earlier than four (4) days prior to the date the redemption notice is to be delivered pursuant to the First Supplemental Bond Declaration.

Mandatory Redemption – 2011 Series A Bonds. The 2011 Series A Bonds maturing on or after June 15, 20\_\_ are subject to mandatory redemption in part and by lot within a maturity in integral multiples of \$5,000, at a redemption price equal to 100 percent of the principal amount thereof, plus accrued but unpaid interest to the date fixed for redemption and on June 15 of the years shown in the table below.

<u>Year</u>	<u>Principal Amount*</u>
	\$
Total	\$
*Preliminary, subject to change.	

The City may credit against the mandatory redemption requirement any 2011 Series A Bonds of the same maturity which the City has previously purchased or which the City has previously redeemed pursuant to any optional redemption provision.

#### **Redemption of the 2011 Series B Bonds (Tax Exempt)**

Par Optional Redemption – 2011 Series B Bonds. The 2011 Series B Bonds maturing on or after June 15, 20\_\_ are subject to optional redemption at the election of the City, prior to their respective maturity dates, on any date on or after June 15, 20\_\_, in whole or in part (and if in part, from the maturities selected by the City and by lot within a maturity in integral multiples of \$5,000), at a redemption price equal to 100 percent of the principal amount thereof, plus accrued but unpaid interest to the date fixed for redemption, from amounts deposited with the Paying Agent by the City and from any other funds available therefor.

#### **Notice of Redemption**

Unless DTC consents to a shorter period, for any 2011 Bonds which are in BEO form, the Paying Agent shall notify DTC not less than 20 days prior to the date fixed for redemption of the maturity to be redeemed in the manner required in the City's Letter of Representations to DTC. No other notice shall be required. See “The 2011 Bonds” in the First Supplemental Bond Declaration in Appendix B, herein.

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 2011 Bond or 2011 Bonds called for redemption shall cease on the redemption date designated in the notice.

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

Any notice of optional redemption to the Paying Agent or to the Owners may state that the optional redemption is conditioned upon receipt by the Paying Agent of moneys sufficient to pay the redemption price of such 2011 Bonds or upon the satisfaction of any other condition, and/or that such notice may be rescinded upon the occurrence of any other event, and the Bond Declaration provides that any conditional notice so given may be rescinded at any time before payment of such redemption price if any such condition so specified is not satisfied or if any such other event occurs. The Bond Declaration requires notice of such rescission or of the failure of any such condition to be given by the Paying Agent to affected Owners of 2011 Bonds as promptly as practicable upon the failure of such condition or the occurrence of such other event.

## 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 2011 Bonds or portions of 2011 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 2011 Bonds or portions of 2011 Bonds shall cease to bear interest.

## DEFEASANCE

The Bond Declaration permits the defeasance of the 2011 Bonds. See also “TAX MATTERS – FEDERAL INCOME TAX – 2011 Series A Bonds-Federally Taxable – Disposition or Retirement” herein.

## ESTIMATED SOURCES AND USES OF BOND PROCEEDS

The anticipated sources and uses of proceeds from the 2011 Bonds are itemized in the following table.

**Table 1**  
**CITY OF PORTLAND, OREGON**  
**Estimated Sources and Uses of 2011 Bond Proceeds**

	<b>2011 SERIES A</b>	<b>2011 SERIES B</b>	<b>TOTAL</b>
<b>SOURCES:</b>			
Par amount of bonds	\$	\$	\$
Original issue premium/(discount)			
Cash contribution			
<b>TOTAL SOURCES</b>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>USES:</b>			
Repayment of lines of credit	\$	\$	\$
Underwriters' discount			
Debt service reserve			
Costs of issuance			
<b>TOTAL USES</b>	<u>\$</u>	<u>\$</u>	<u>\$</u>

Source: City of Portland.

The following table presents the debt service on outstanding Parity Indebtedness, including the 2011 Bonds.

**Table 2**  
**CITY OF PORTLAND, OREGON**  
**Scheduled Debt Service on the Outstanding Parity Indebtedness**  
**as of the Delivery of the 2011 Bonds**

<b>Fiscal Year</b> <b>Ending</b> <b>June 30th</b>	<b>PARITY</b>	<b>2011 SERIES A BONDS</b>		<b>2011 SERIES B BONDS</b>		<b>TOTAL</b>
	<b>INDEBTEDNESS</b> <b>DEBT SERVICE (1)</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	
2012	\$2,533,331					
2013	2,535,331					
2014	2,535,131					
2015	2,532,731					
2016	2,533,131					
2017	2,530,631					
2018	2,534,381					
2019	2,534,606					
2020	2,530,106					
2021	2,530,881					
2022	2,531,406					
2023	2,534,750					
2024	2,530,250					
2025	2,530,500					
2026	-					
2027	-					
2028	-					
2029	-					
2030	-					
2031	-					
Total	\$35,457,169					

Notes:

(1) Debt service for the 2004 Series A Bonds.

Source: City of Portland.

## **SECURITY FOR THE 2011 BONDS**

### **PLEDGE OF DIVIDE THE TAXES REVENUES AND RESERVE SUBACCOUNTS**

The 2011 Bonds are secured by the taxes which are divided based on the increase in value of property in the Area and which are payable to the City or the Commission under the provisions of Article IX, Section 1c of the Oregon Constitution and ORS Chapter 457, as those provisions exist on the date of the Bond Declaration (the “Divide the Taxes Revenues”). Collected amounts from the Divide the Taxes Revenues and the earnings thereon (collectively, the “Interstate Corridor Tax Increment Revenues” or the “Tax Increment Revenues”) are deposited into the Tax Increment Fund as described herein. See “—FUNDS AND ACCOUNTS – The Tax Increment Fund” below. The 2011 Bonds are additionally secured by a lien on, and pledge of, amounts credited to the 2011 Reserve Subaccount.

This Official Statement refers to the amounts that are pledged to the Series of 2011 Bonds as the “Security.” For the 2011 Bonds, “Security” means (i) the Interstate Corridor Tax Increment Revenues; (ii) all amounts credited to the 2011 Bond Reserve Subaccount, which are pledged solely to the 2011 Bonds and any Parity Indebtedness that the City elects to secure with the 2011 Bond Reserve Subaccount; and, (iii) all amounts available under any 2011 Reserve Credit Facility, which are pledged solely to the 2011 Bonds, and, to the extent permitted by the terms of the 2011 Reserve Credit Facility, to any Parity Indebtedness that the City elects to secure with the 2011 Reserve Subaccount.

The 2011 Bonds are not secured by any taxing power or tax revenues except the Interstate Corridor Tax Increment Revenues. The City has issued bonds for other urban renewal areas that are secured by additional taxes. See “THE PORTLAND DEVELOPMENT COMMISSION – URBAN RENEWAL AREAS – Collection Options” in Appendix I.

THE 2011 BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE CITY SECURED SOLELY BY AND PAYABLE SOLELY FROM THE SECURITY, AS PROVIDED IN THE BOND DECLARATION. THE 2011 BONDS ARE NOT GENERAL OBLIGATIONS OF THE CITY OR THE PORTLAND DEVELOPMENT COMMISSION, AND ARE NOT SECURED BY OR PAYABLE FROM ANY FUNDS OR REVENUES OF THE CITY OR THE PORTLAND DEVELOPMENT COMMISSION EXCEPT THE SECURITY.

### **DIVIDE THE TAXES REVENUES AND INCREMENTAL ASSESSED VALUE**

The Divide the Taxes Revenues are calculated by multiplying the Incremental Assessed Value of an urban renewal area by the consolidated billing tax rate. The consolidated billing tax rate for the Area is the sum of the tax rates of taxing districts that overlap the Area, except for the urban renewal special levy that is imposed for certain urban renewal areas in existence prior to December 6, 1996. The Incremental Assessed Value is the difference between the Assessed Value of all taxable property in the Area from the date the Area was formed (August 23, 2000) adjusted for amendments to the Plan (the “Frozen Base”) and the current Assessed Value of all taxable property in the Area.

The Divide the Taxes Revenues may be reduced as a result of declines in Assessed Value of property in the Area due to market or other factors. See “RISKS TO BONDHOLDERS – DECLINES IN ASSESSED VALUE OF PROPERTY IN THE AREA DUE TO MARKET FACTORS” and “RISKS TO BOND OWNERS – DECLINES IN ASSESSED VALUE OF PROPERTY DUE TO OTHER FACTORS.” The Divide the Taxes Revenues also could be reduced as a result of declines in property tax rates. See “RISKS TO BONDHOLDERS – DECLINES IN PROPERTY TAX RATES.” The Divide the Taxes Revenues are subject to compression by Article XI, Section 11b of the Oregon Constitution, which may reduce actual collections of Divide the Taxes Revenues. See “RISKS TO BOND OWNERS – MEASURE 5 COMPRESSION” and “PROPERTY TAX AND VALUATION INFORMATION – SECTION 11B.” Collections of Divide the Taxes Revenues also may be less due to delinquencies.

### **MAXIMUM INDEBTEDNESS**

The adopted Plan for the Area establishes a Maximum Indebtedness amount of \$335,000,000. The Maximum Indebtedness limits the principal amount of indebtedness (except refunding indebtedness of the Area) and all direct expenditures of Divide the Taxes Revenues except expenditures for interest on indebtedness. See “AREA PROPERTY VALUES, TAX INCREMENT REVENUES, AND INDEBTEDNESS – MAXIMUM INDEBTEDNESS” herein.

If the City and PDC comply with the notice and hearing requirements that apply to the adoption of a new urban renewal plan, the City may enact a non-emergency ordinance to amend the Plan to increase its Maximum Indebtedness.

Oregon law currently allows the Maximum Indebtedness for the Plan to be increased by no more than 20 percent. If the City does increase the Maximum Indebtedness for the Plan, subsequent increases in Incremental Assessed Value would be reduced by 25 percent until Divide the Taxes Revenues are equal to \$33,500,000 (ten percent of the current Maximum Indebtedness of the Plan). Once Divide the Taxes Revenues reach \$33,500,000, Incremental Assessed Value and Divide the Taxes Revenues would not increase.

The reductions in the increase in Incremental Assessed Value are called “sharing” because they allow overlapping taxing bodies to share increases in assessed value inside the Area and tax a greater portion of the value in the Area. The sharing statutes are designed to both reduce and stabilize tax increment collections once an urban renewal area is mature and successful. Although tax increment collections are reduced because of the sharing, they are also stabilized because, once sharing begins, any subsequent reductions in Incremental Assessed Value first reduce the value that is taxed by overlapping taxing districts, and only reduce Incremental Assessed Value and tax increment collections after sharing is eliminated. Sharing would not be required if the City obtains the consent of overlapping taxing bodies imposing 75 percent of the permanent rate levies in the Area.

The City has reserved the right to amend the Bond Declaration to, among other things, limit its ability to increase the Maximum Indebtedness, subject to the Debt Manager projecting a minimum level of Interstate Corridor Tax Increment Revenues after such increase. By purchase and acceptance of the 2011 Bonds, the Owners of the 2011 Bonds will be deemed to have irrevocably consented to such amendments to the Bond Declaration as described herein and in Appendix B. See “SECURITY FOR THE 2011 BONDS – Proposed Amendments” and Appendix B - “FIRST SUPPLEMENTAL BOND DECLARATION – Amendments to Master Declaration.”

## **OTHER COVENANTS**

### **Reduction in Area**

The City shall not reduce the Area unless the Debt Manager reasonably projects that the Area, after the reduction, will have Interstate Corridor Tax Increment Revenues which are at least equal to one hundred thirty percent (130%) of the Maximum Annual Debt Service on all then Outstanding Bonds (calculated as if all Outstanding Bonds were part of a single Series).

### **Granting or Approving of Tax Exemption**

The City covenants the following with respect to granting or approving tax exemptions or tax exemption programs:

- (1) The City and the Commission may approve, grant, or provide property tax exemptions or programs that provide property tax exemptions that affect property in the Area without limitation, but only if the programs providing those exemptions (i) are in effect on the date of the Bond Declaration; (ii) replace or renew programs that are in effect on the date of the Bond Declaration, or (iii) promote affordable housing or are for the value of newly constructed or rehabilitated property.
- (2) Except for property tax exemption programs described in (1) above, neither the City nor the Commission shall approve, grant or provide any property tax exemption program that affects property inside the Area unless, before the program is approved or provided, the Debt Manager reasonably projects that the Area, after the program is in effect, will have Interstate Corridor Tax Increment Revenues which are at least equal to one hundred thirty percent (130%) of the Maximum Annual Debt Service on all then Outstanding Bonds (calculated as if all Outstanding Bonds were part of a single Series).
- (3) Except for exemptions provided under programs described in (1) and (2) above, neither the City nor the Commission shall approve, grant or provide any property tax exemption for property inside the Area unless, before the exemption is approved, the Debt Manager reasonably projects that the Area, after the exemption is in effect, will have Interstate Corridor Tax Increment Revenues which are at least equal to one hundred thirty percent (130%) of the Maximum Annual Debt Service on all then Outstanding Bonds (calculated as if all Outstanding Bonds were part of a single Series).

Many property tax exemptions do not require City approval, such as those granted by state statute for charitable or religious organizations. See “PROPERTY TAX AND VALUATION INFORMATION – PROPERTY TAX EXEMPTION PROGRAMS” herein for a description of City programs that offer property tax abatements.

## FUNDS AND ACCOUNTS

### The Tax Increment Fund

ORS 457.440(6)(b) and the Bond Declaration require the City to deposit all Divide the Taxes Revenues into the Tax Increment Fund. The Bond Declaration separates the Tax Increment Fund into a Parity Indebtedness Fund, which includes the Debt Service Account and the Reserve Account, and a Subordinate Indebtedness Account.

All Divide the Taxes Revenues deposited in the Tax Increment Fund must be credited:

- First, to the Debt Service Account, until the Debt Service Account contains an amount sufficient to pay the Annual Debt Service due in that Levy Year;
- Second, to the Reserve Account if the balance in any subaccount of the Reserve Account is less than the applicable Reserve Funding Requirement for that subaccount, until the balances in all subaccounts of the Reserve Account are equal to their Reserve Funding Requirements. See “The Reserve Account” below; and
- Third, to the Subordinate Indebtedness Account, to the extent that any amounts remain after the foregoing deposits have been made.

### The Debt Service Account

Amounts in the Debt Service Account shall be used only to pay Bond principal, interest and premium.

### The Reserve Account

The City has created a Reserve Account in the Parity Indebtedness Fund, and may create subaccounts in the Reserve Account to secure the Bonds. When each subaccount is created, the City shall determine whether the subaccount will secure one or more Series of Bonds. If the City creates a subaccount in the Reserve Account, the City shall, before it issues the first Series of Bonds that is secured by that subaccount, establish the Reserve Funding Requirement, withdrawal procedures, replenishment requirements, permitted investments, valuation provisions, and other terms and conditions for that subaccount and pledge amounts credited to that subaccount to pay the Bonds that are secured by that subaccount.

The City has created a subaccount in the Reserve Account (the “2011 Reserve Subaccount”), which secures the 2011 Bonds and any Parity Indebtedness the City subsequently elects to secure with the 2011 Reserve Subaccount. The City covenants to fund and maintain a balance in the 2011 Reserve Subaccount which is at least equal to the 2011 Reserve Subaccount Funding Requirement for all Bonds that are then Outstanding and secured by the 2011 Bond Reserve Subaccount. The 2011 Reserve Subaccount Funding Requirement is generally equal to the lesser of the Maximum Annual Debt Service on all Outstanding Bonds that are secured by the 2011 Reserve Subaccount, or the amount the City was required to maintain in the 2011 Reserve Subaccount prior to issuing a Series of Parity Indebtedness, plus the largest amount of proceeds of tax-exempt bonds the City may use to fund a reserve under the Internal Revenue Code of 1986, as amended. Amounts credited to the 2011 Reserve Subaccount shall be used only to pay principal, interest and premium on the 2011 Bonds and any other Bonds that are secured by the 2011 Reserve Subaccount, except as specifically provided in the Bond Declaration.

As of the date of Closing of the 2011 Bonds, the only Bonds that are Outstanding and are secured by the 2011 Reserve Subaccount are the 2011 Bonds, and the 2011 Reserve Funding Requirement is equal to \$\_\_\_\_\_, which is the Maximum Annual Debt Service on the 2011 Bonds, with the 2011 Bonds treated as a single Series. For purposes of calculating the 2011 Reserve Subaccount Funding Requirement, “Maximum Annual Debt Service” means the largest Annual Debt Service that occurs after the date for which the calculation is done, and “Annual Debt Service” means the amount of principal and interest required to be paid in a Fiscal Year. Upon issuance of the 2011 Bonds, the City intends to deposit the amount of the 2011 Reserve Subaccount Funding Requirement from proceeds of the 2011 Bonds into the 2011 Reserve Subaccount.

The City may elect to substitute for all or a portion of the cash and investment securities then on deposit in the 2011 Reserve Subaccount a Credit Facility, which is defined as “a letter of credit, a municipal bond insurance policy, a surety bond, standby bond purchase agreement or other credit enhancement device which is obtained by the City to secure Bonds, and which is issued or unconditionally guaranteed by an entity whose long-term debt obligations or claims-paying ability (as appropriate) are rated one of the three highest rating categories by a Rating Agency which rated the Bonds secured by the Credit Facility.” Should the City elect to fund all or a portion of the 2011 Reserve Subaccount with a Credit Facility, the City

is permitted to replenish deficiencies in the 2011 Reserve Subaccount resulting from certain events related to the provider of such Credit Facility over a period of three years. See Appendix B - "FIRST SUPPLEMENTAL BOND DECLARATION – The 2011 Reserve Subaccount."

#### Reserve Subaccounts and Credit Facilities for Other Parity Indebtedness

The City has created the 2004 Series A Reserve Subaccount in the Reserve Account to secure the 2004 Series A Bonds and has funded this subaccount with a Credit Facility, currently held by National Public Finance Guarantee Corporation ("National"). The Credit Facility has an aggregate face amount of \$2,535,331, and has a termination date of June 15, 2025. As of the date of this Official Statement, the National rating is Baa1 by Moody's Investors Service. In addition to the Credit Facility, the City has elected to deposit cash into the 2004 Series A Reserve Subaccount equal to the 2004 Series A Reserve Funding Requirement.

The City has reserved the right to amend the Bond Declaration to, among other things, permit replenishing deficiencies in the 2004 Series A Reserve Subaccount over time and to clarify that the ratings requirement for a provider of a Credit Facility would apply only at the time that the Credit Facility is issued. By purchase and acceptance of the 2011 Bonds, the Owners of the 2011 Bonds will be deemed to have irrevocably consented to such amendments to the Bond Declaration as described herein and in Appendix B. See "SECURITY FOR THE 2011 BONDS – Proposed Amendments" and Appendix B - "FIRST SUPPLEMENTAL BOND DECLARATION – Amendments to Master Declaration."

#### **PARITY INDEBTEDNESS**

The City has reserved the right to issue future Parity Indebtedness only if all of the following conditions are met:

1. As of the date of Closing of the Parity Indebtedness, no Event of Default under the Bond Declaration has occurred and is continuing.
2. On or before the date of Closing of the Parity Indebtedness the City provides either:
  - A. a certificate of the Debt Manager stating that the Interstate Corridor Tax Increment Revenues for the Base Period at least equaled one hundred twenty-five percent (125.00%) of the Maximum Annual Debt Service on all then Outstanding Bonds, with the proposed Parity Indebtedness treated as Outstanding; or,
  - B. both of the following:
    - i. a certificate or opinion of a Qualified Consultant:
      - a. stating the projected amount of the Interstate Corridor Tax Increment Revenues for the Fiscal Year in which the proposed Parity Indebtedness is issued and the projected amount of the Interstate Corridor Tax Increment Revenues for each of the four Fiscal Years after the Fiscal Year in which the proposed Parity Indebtedness are issued;
      - b. concluding that the respective amounts of projected Interstate Corridor Tax Increment Revenues in each of the Fiscal Years described in the preceding paragraph (a) are at least equal to one hundred thirty percent (130.00%) of the Annual Debt Service for each of those respective Fiscal Years on all Outstanding Bonds, with the proposed Parity Indebtedness treated as Outstanding;
      - c. stating the projected amount of the Interstate Corridor Tax Increment Revenues for the fifth Fiscal Year after the Fiscal Year in which the Parity Indebtedness is issued; and,
      - d. concluding that this projected amount described in the preceding paragraph (c) is at least equal to one hundred thirty percent (130.00%) of the Maximum Annual Debt Service on all Outstanding Bonds, with the proposed Parity Indebtedness treated as Outstanding; and
    - ii. a certificate of the Debt Manager stating that the Interstate Corridor Tax Increment Revenues for the Base Period at least equaled one hundred percent (100.00%) of the Maximum Annual Debt



Service on all then Outstanding Bonds, with the proposed Parity Indebtedness treated as Outstanding.

The City may issue Parity Indebtedness to refund Outstanding Bonds without complying with the preceding requirements if:

1. the refunded Bonds are defeased on the date of delivery of the refunding Parity Indebtedness; and,
2. the Annual Debt Service on the refunding Parity Indebtedness does not exceed the Annual Debt Service on the refunded Bonds in any Fiscal Year by more than \$5,000.
3. In addition to allowing refunding of Parity Indebtedness which is not a Balloon Payment, the provisions allowing refunding of Parity Indebtedness permit Balloon Payments to be refunded with Parity Indebtedness when the Annual Debt Service on the refunding Parity Indebtedness does not exceed the Balloon Debt Service Requirement for the refunded Balloon Payment (which is assumed to be amortized as provided either in the definitions of “Committed Debt Service Requirement” or “Estimated Debt Service Requirement”) in any Fiscal Year by more than \$5,000.

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

## **SUBORDINATE INDEBTEDNESS**

The City may issue Subordinate Indebtedness which shall not be payable from any account of the Tax Increment Fund except the Subordinate Indebtedness Account or a subaccount of the Subordinate Indebtedness Account. All Subordinate Indebtedness shall state clearly that it is secured by a lien on or pledge of the Interstate Corridor Tax Increment Revenues which is subordinate to the lien on, and pledge of, the Interstate Corridor Tax Increment Revenues for the Bonds. See Appendix A, “MASTER BOND DECLARATION—Subordinate Indebtedness.”

## **AMENDMENTS, DEFAULTS, AND REMEDIES**

The City may amend the Bond Declaration for certain purposes without consent of Bond Owners, and for other purposes with the consent of Owners representing not less than 51 percent in aggregate principal amount of the adversely affected Bonds then Outstanding. See Appendix A, “MASTER BOND DECLARATION—Amendment of Declaration” and “—Ownership of Bonds.”

## **PROPOSED AMENDMENTS**

The following is a description of certain amendments to the Bond Declaration, which as of the date of this Official Statement, are not yet effective, that the City reserves to make subject to (a) the consent of the 2004 Series A Bond Insurer while the 2004 Series A Bonds are Outstanding, and (b) the consent of Owners of not less than 51 percent in aggregate principal amount of all Outstanding affected Bonds. The 2004 Series A Bond Insurer is authorized by the Master Bond Declaration to consent to amendments on behalf of the Owners of the 2004 Series A Bonds. The amendments will become effective upon the maturity or defeasance of the 2004 Series A Bonds. By purchase and acceptance of the 2011 Bonds, the Owners of the 2011 Bonds will be deemed to have irrevocably consented to the amendments to the Bond Declaration as described below and in Appendix B – “FIRST SUPPLEMENTAL BOND DECLARATION.”

### **Federal Interest Subsidy Amendments**

The City proposes to amend the Bond Declaration to provide that the Bonds will be additionally secured by a pledge of any federal interest subsidies that the City is eligible to receive from the United States for Bonds (“Federal Interest Subsidy”), such as “Build America Bonds” and that the definition of “Annual Debt Service” and “Maximum Annual Debt Service” will be amended to treat such Federal Interest Subsidy as a set off against interest paid for purposes of satisfying tests under the Bond Declaration, including the issuance of Parity Indebtedness.

## **Amendments Related to Credit Facilities and Installment Funding Amendment for 2004 Series A Reserve Subaccount**

The City proposes to amend the Bond Declaration to clarify that the ratings requirement for a provider of a Credit Facility would apply only at the time that the Credit Facility is issued. The City also proposes to amend the Bond Declaration to permit replenishing deficiencies in the 2004 Series A Reserve Subaccount resulting from (a) a withdrawal or suspension of all ratings on the provider of the Credit Facility, (b) the downgrading of all ratings on the provider of a Credit Facility below investment grade, or (c) the failure of the provider of the Credit Facility to honor a request for funds under such Credit Facility over a period of three years in substantially equal annual installments.

### **General Covenant Amendments**

Oregon law currently allows the City to take formal action to limit the collection of the Divide the Taxes Revenues for a single Fiscal Year or for the life of the urban renewal plan. The City proposes to eliminate the covenant currently in Section 7.9 of the Master Bond Declaration and amend the Bond Declaration to restrict its ability to reduce the Divide the Taxes Revenues for a single Fiscal Year unless the Debt Manager reasonably projects that the Interstate Corridor Tax Increment Revenues for such Fiscal Year after such action is taken will not fall below one hundred and ten percent (110%) of the Maximum Annual Debt Service on all Outstanding Bonds.

Additionally, the City proposes to amend the Bond Declaration to restrict its ability to take formal action to permanently reduce the Divide the Taxes Revenues unless the Debt Manager reasonably projects that the reduction will not cause Interstate Corridor Tax Increment Revenues to fall below one hundred and thirty percent (130%) of the Maximum Annual Debt Service on all then Outstanding Bonds.

The City also proposes to amend the Bond Declaration to limit its ability to increase the Maximum Indebtedness unless the Debt Manager reasonably projects that the increase will not cause the Interstate Corridor Tax Increment Revenues to fall below one hundred and thirty percent (130%) of the Maximum Annual Debt Service on all then Outstanding Bonds.

# **THE INTERSTATE CORRIDOR URBAN RENEWAL AREA**

## **DESCRIPTION AND PURPOSE**

### **Overview**

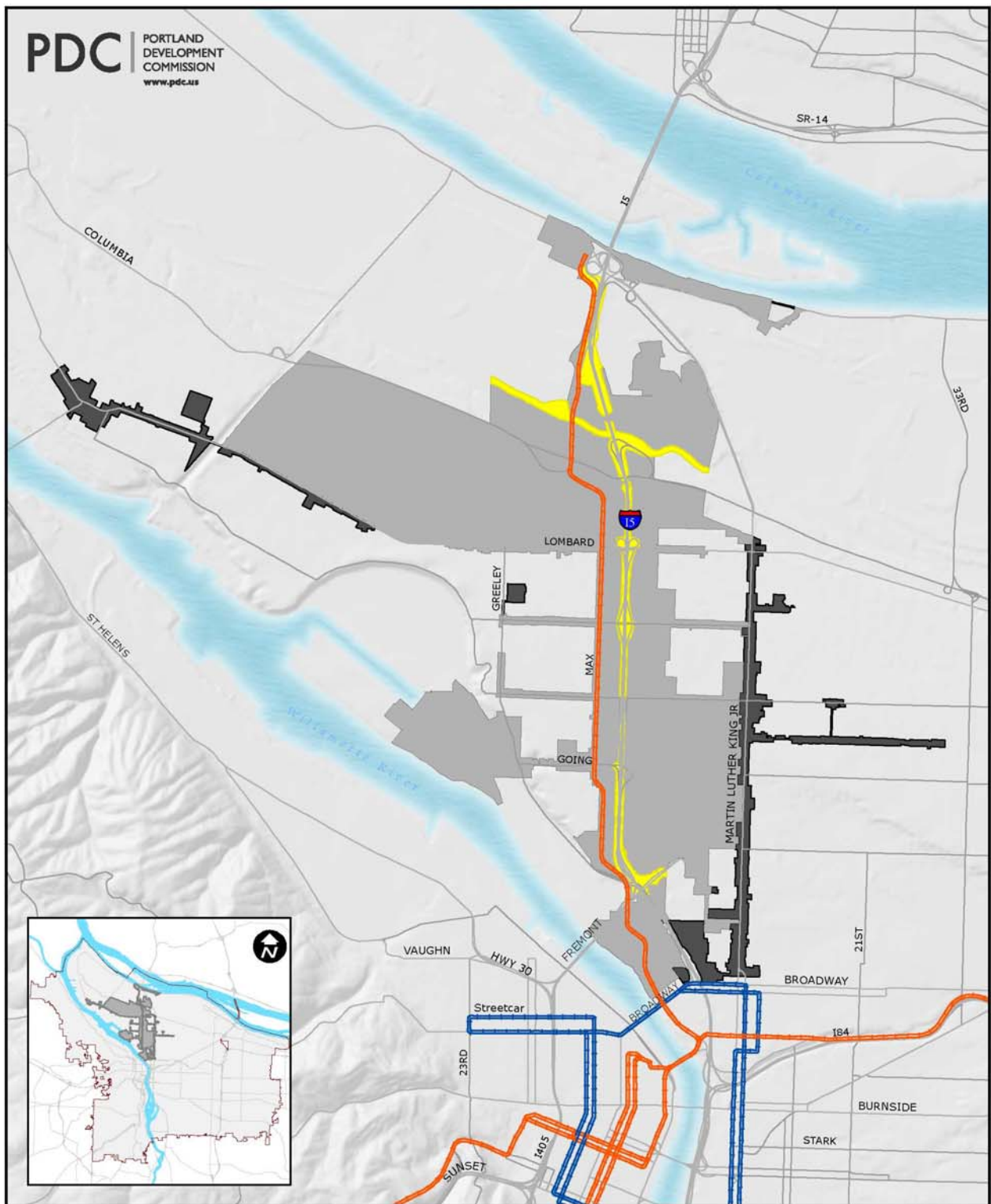
The Area was formed on August 23, 2000. It takes its name from Interstate Avenue, a major arterial extending through the Area that historically has linked Portland to the State of Washington, but includes an expansive geographic area with boundaries that extend from the Willamette River just north of Broadway Bridge to the Columbia River near the Portland Metropolitan Exposition Center in Northeast and North Portland, roughly paralleling the new extension of the region's light rail line ("MAX"), known as Interstate MAX, and Interstate 5. The Area is Portland's largest urban renewal area, comprising 3,804 acres.

In 2008, the Commission launched the North/Northeast Economic Development Initiative to review past and planned investments, possible boundary adjustments and priorities for new investments in the Interstate Corridor and Oregon Convention Center Urban Renewal Areas. The PDC convened a 21-member Advisory Committee to make recommendations on these issues. The Advisory Committee has recommended that the Interstate Corridor Urban Renewal Area be expanded by adding approximately 246 acres and \$136.6 million of Assessed Value not currently in an urban renewal area and by moving approximately 170 acres and \$104.4 million of Assessed Value from the Oregon Convention Center Urban Renewal Area to the Area. Also, some right-of-way acreage will be removed from the Area, resulting in a net increase of approximately 186 acres and \$239 million of Assessed Value in the Area. The map on the following page, which is subject to change, shows the current boundaries of the Area and the proposed boundary adjustments. The Plan amendment is scheduled to be considered by the City Council in July 2011. Subject to the Plan amendment being approved as currently proposed, it is anticipated that the Assessed Value of the Area would be increased due to the Plan amendment beginning in FY 2012-13.

The majority of the new acreage to be included in the amended area is zoned for commercial or high-density residential development. Anticipated projects in that amendment area are limited to PDC's economic development and redevelopment programs for the first five years. Anticipated projects after that period include safety and streetscape improvements along selected commercial corridors. The projections of Real Market and Assessed Value, and the Interstate Corridor Tax Increment Revenues included in this Official Statement do not include the impacts of this Plan amendment. See "AREA PROPERTY VALUES, TAX INCREMENT REVENUES, AND INDEBTEDNESS —PROJECTIONS OF FUTURE REAL MARKET AND ASSESSED VALUES" herein.

### **Area Characteristics**

The Area comprises portions of 11 neighborhoods within inner North/Northeast Portland and includes a diverse collection of older residential neighborhoods, interconnected by commercial corridors, with large scale industrial centers located on its western and northern edges. An estimated 29,438 people live within the boundaries of the Area, according to the 2010 American Community Survey. The Area contained 13,491 total housing units in calendar year 2010 according to housing inventory estimates of the Commission. Approximately 7,500 were single-family homes, while the majority of multi-family residential buildings were duplexes, tri-plexes and four-plexes. Over 70 percent of all residential buildings in the Area were built before 1950. In April 2011, the median sales price in North Portland (in which much of the Area is located) was \$195,600 compared to the metropolitan region median of \$215,000.



## Interstate Corridor URA

Existing Interstate URA
  Removal from Existing Interstate URA
  Interstate URA Expansion Areas

The information on this map was created by the Portland Development Commission (PDC) GIS. Every reasonable effort has been made to ensure the accuracy of these maps and associated data. However, inadvertent errors can occur and the PDC does not assume any responsibility for omissions or positional accuracy. This information is presented "as is" and without warranties, either expressed or implied. Information Sources: Portland Development Commission Geographic Information Systems (GIS), City of Portland Corporate GIS, July 2011.

## Employment

The Area contains a diverse mix of businesses. Based on 2008 information, the following are among the top employers located in the Area:

- Daimler Trucks North America LLC, a truck manufacturer
- Kaiser Foundation Health Plan NW
- Adidas USA/Adidas Retail Outlets, including the company headquarters and retail outlet
- Pacific NW Blood Region – American Red Cross
- Ferguson Enterprises, a supplier of kitchen and bathroom fixtures
- Streimer Sheet Metal Works Inc., a sheet metal fabricator
- Fred Meyer, a grocery chain
- American Linen Supply Co., a textile service company
- Temp-Control Mechanical Corporation, a firm specializing in mechanical system construction and installation, and services related to heating, ventilation and cooling systems
- Menlo Logistics Inc., a logistics consultant and operator

Even with these large employers the Area is dominated by small businesses with less than 50 employees. These small businesses make-up 90 percent of the businesses in the Area.

Manufacturing is the largest employer type in the Area, employing more than 2,000 workers. The Area includes specific geographic areas where industrial uses are prevalent, including the eastern portion of Swan Island, the Lower Albina District, and the Columbia Corridor. The eastern portion of Swan Island is located in the Area and is home to some of the Area's larger employers, including Daimler and Swan Island Dairy. The Lower Albina District is characterized primarily by industrial uses. North Russell and Albina Streets in the Lower Albina District provide the key connections from the Albina/Mississippi MAX light rail station to local businesses in the district and residences and businesses in the Eliot neighborhood to the east. North Russell Street also provides a connection under I-5 to a major employment center at Legacy Emanuel Hospital, located just outside the Area. Much of the Columbia Corridor's western edge also is located in the Area.

Two other Area corridors, Vancouver/Williams and Mississippi, have some pockets of light industrial use. These are in mixed-use areas and are often locally-owned businesses. Many of these businesses fall into the construction trades industry.

With Kaiser Permanente and Legacy Emanuel Hospital and associated businesses located in the Area, the health care industry is another source of jobs for Area residents. This industry is supported by Portland Community College Cascade campus, which offers five training programs in medical professions.

## HISTORIC COMMISSION INVESTMENT IN THE AREA

The table below shows the types of projects in which the Commission has invested since the Area was formed in 2000.

**Table 3**  
**CITY OF PORTLAND, OREGON**  
**Interstate Corridor Urban Renewal Area**  
**PROJECT EXPENDITURES BY CATEGORY**  
**(FY 2000-01 through FY 2009-10)**

<b>Project Category</b>	<b>Amount (1)</b>
Infrastructure	\$42,226,825
Revitalization	8,875,750
Housing	26,285,887
Business and Industry	5,579,036
Transfers – Indirect (2)	11,960,740
Administration (3)	281,737
<b>Total</b>	<b>\$95,209,976</b>

Notes:

- (1) Includes all funding sources, including sources other than bond proceeds.
- (2) Includes project staff and overhead.
- (3) Amounts include Personal Services, Indirect Staff and Administration, and Other Administrative Expenses by project category.

Source: Portland Development Commission.

Various strategies have funded the allocation of urban renewal dollars over the life of the Area. Investment has been focused on projects and programs that:

- Facilitate development of underutilized land and/or revitalize existing building stock;
- Stimulate and invest in business development and quality job growth;
- Maintain affordable housing opportunities and support services;
- Improve transportation infrastructure and expand transportation options; and
- Improve quality of life amenities such as parks and trails, and historic and cultural structures or landscapes.

### Infrastructure Improvements

A significant portion of the PDC resources for the Area have been spent on transportation infrastructure, including \$30 million as the local match for the MAX Yellow Line light rail extension. Other transportation improvements include streetscape improvements on Killingworth Street, Russell Street, and Denver Avenue and smaller-scale transportation safety projects. The PDC also spent about \$1.7 million on Area park redevelopment, including renovation of Patton Square Park on Interstate Avenue along the light rail line, renovation of playgrounds at Trenton and Overlook Parks, and improvements to Dawson Park.

### Housing

The Commission has recently undertaken several mixed-income, mixed-use housing projects. Two transit-oriented affordable rental housing developments were completed with PDC resources. The Patton Park Apartment, completed with \$4.4 million of tax increment funding from PDC, provides 52 rent-restricted rental units and 7,000 square feet of ground floor commercial space adjacent to the Killingsworth MAX station. Shaver Green, which received \$2.1 million of tax increment funding, provides 88 rent-restricted rental units and ground floor community space. PDC has also provided funding for several smaller affordable housing projects.

In 2006, the Commission contributed \$6.4 million toward the Housing Authority of Portland's New Columbia project. The \$150 million New Columbia project was the largest single redevelopment project in Portland, converting 82 acres of

formerly low-density public housing into an 850-unit mixed income community. The project included the replacement of 370 public housing units as well as the development of 60 elderly affordable housing units, 190 new affordable rental housing units and 230 new homeownership units.

On October 25, 2006, the City Council adopted Ordinance 180547, which instituted a City policy to allocate tax increment financing resources for the development, preservation and rehabilitation of housing affordable to households with incomes below 80% of median family income ("MFI"). This ordinance was amended by Ordinance 180889 in April 2007 to allow funds to be used for homeownership for households with incomes up to 100% MFI under certain conditions.

Ordinance 180889 incorporated an Implementation Plan and Income Guidelines and provided that the Interstate Urban Renewal Area spend a minimum of 30 percent of total materials and services, capital outlay, and financial assistance dollars on affordable housing after July 1, 2006 through the life of the district. Through FY 2009-10, actual spending was 48 percent of this total. The Implementation Plan noted that the policy would be considered as part of the annual Commission budgeting process during which the Commission would identify a five-year housing expenditure target and allow budgeted funds to be carried forward to future budget years in the event they are not spent in a particular budget year.

### **Business and Industry and Revitalization**

The Commission has invested over \$11.7 million in the form of loans to varying types of businesses. Additionally, the Commission's resources for revitalization has been spent on land assembly, and financial assistance for the renovation of existing buildings and construction of new buildings through several grant and loan programs.

### **PLANNED COMMISSION ACTIVITIES IN THE AREA**

Each year the Commission develops a detailed annual budget and an internal five-year capital forecast for internal planning purposes. The table below identifies projects anticipated to be undertaken in the next five years.

**Table 4**  
**CITY OF PORTLAND, OREGON**  
**Interstate Corridor Urban Renewal Area**  
**PROJECT EXPENDITURES BY CATEGORY**  
**(FY 2010-11 through FY 2014-15)**

<b>Project Category</b>	<b>FY 2010-11 Revised</b>	<b>FY 2011-12 Proposed</b>	<b>FY 2012-13 Proposed</b>	<b>FY 2013-14 Proposed</b>	<b>FY 2014-15 Proposed</b>	<b>TOTAL</b>
Infrastructure	\$4,053,849	\$3,052,446	\$3,015,000	\$1,730,000	\$1,200,000	\$13,051,295
Property Redevelopment	14,040,673	6,170,283	4,258,438	3,766,656	3,282,037	31,518,087
Housing	5,271,148	4,967,843	1,849,337	1,809,427	3,320,536	17,218,291
Business Development	2,255,000	3,136,544	1,717,750	1,717,750	1,675,000	10,502,044
Transfers - Indirect	3,151,794	2,025,032	1,387,346	1,175,516	1,234,477	8,974,165
Administration	455,431	160,383	22,532	22,532	22,532	683,410
<b>Total</b>	<b>\$29,227,895</b>	<b>\$19,512,531</b>	<b>\$12,250,403</b>	<b>\$10,221,881</b>	<b>\$10,734,582</b>	<b>\$81,947,292</b>

Source: Portland Development Commission.

## Infrastructure

Approximately \$13.1 million in infrastructure investments are forecast between FY 2010-11 and FY 2014-15. They include:

- **Bridgeton.** PDC and the Parks Bureau have been working on trail development in North Portland. Part of the original 40-Mile Loop trail concept inspired by John C. Olmsted's 1903 park system master plan, this trail would close a gap in the Marine Drive Trail, providing a safe, off-street, multi-modal route as an alternative to Marine Drive. The Bridgeton section is one-half mile long, linking N. Bridgeton Road to I-5. The completed Marine Drive Trail would link Kelley Point Park to Troutdale, a distance of 18 miles.
- **Dawson Park.** A 2010 Intergovernmental Agreement between the Portland Development Commission and Portland Parks & Recreation provides funding for the design phase of an improvement project to Dawson Park. This project will enhance the park's appearance, safety, and site furnishings, while emphasizing its historic character.
- **Killingsworth Streetscape.** Killingsworth Streetscape includes historic lighting, new street trees, and improved sidewalks and crosswalks, from Commercial Avenue eastward to Martin Luther King Jr. Boulevard. Upgrading the streetscape is expected to help increase the pace of private investment along this half-mile stretch of storefronts, homes and institutions.
- **Lombard Streetscape.** Streetscape improvements on Lombard Street from Columbia Park westward to the Burlington Northern Railroad cut, including curb extensions, street lighting and bicycle improvements.

## Property Redevelopment

PDC is planning to invest \$31.5 million in property redevelopment activities between FY 2010-11 and FY 2014-15 to support revitalization of the Interstate Corridor. Specific investments include:

- **Clean Energy Program.** PDC has partnered with multiple public and private entities to fund Clean Energy Works Oregon. This program provides financing for energy efficient retrofits for neighborhood single-family residential properties. The goal is to retrofit 250 houses at \$10,000 per house.
- **Kenton Redevelopment.** This entails redevelopment activities in Downtown Kenton partnering with TriMet and other property owners on redevelopment strategic sites in Kenton. This includes acquisition of a 3.5 acre site in Downtown Kenton for transit oriented development or employment that is expected to lead to future assessed value increases and/or jobs.
- **Killingsworth Station.** Construction of the planned, four-story mixed-use building containing 52 residential condominiums and 9,000 square feet of ground-floor commercial condominium space. Half of the residential units are to be affordable at 80-100% median family income. Killingsworth Station will help activate a major intersection and transit mode currently dominated by auto-oriented uses.
- **Redevelopment Loan Program.** This program is designed to assist property owners with costs of redevelopment, targeting blighted and historic properties or implementing transit-oriented development for commercial and mixed-use development.
- **Storefront Grants.** Grants of up to \$32,000 that do not exceed more than 75 percent of the project costs. Funds are available to businesses and building owners on a first-come, first-serve basis that go towards façade and other street frontage improvements.

## Housing

PDC, through an intergovernmental agreement, is planning to invest \$17.2 million in affordable housing activities between FY 2010-11 and FY 2014-15. The key projects are listed below. Note that the Ainsworth Court and Bridge Meadows projects are expected to be exempt from property taxation.



- **Ainsworth Court.** This project is in partnership with the Housing Authority of Portland. The rehabilitation of Ainsworth Court Apartments consists of 88 one- and two-bedroom rental units. All units in the project will have rents affordable to households with incomes up to 60 percent median family income.
- **Bridge Meadows.** The project at Bridge Meadows provides redevelopment and gap financing for the development of 36 rental units, including 27 apartments for low-income seniors at 0-50 percent median family income and nine single family homes for families that agree to adopt hard-to-place foster children.
- **Affordable Rental Housing.** This PDC program provides predevelopment and/or financial assistance for the preservation and new development of affordable rental housing focused on 0-60 percent median family income.
- **Home Buyer Assistance.** This program provides financial assistance to first time homebuyers at 50-80 percent median family income and families at 50-100 percent median family income. Home Buyer Assistance includes interest buydown and downpayment assistance.
- **Home Repair Projects.** The Home Repair Projects category includes loans to homeowners for needed home repairs to households at or below 80 percent median family income.

### **Business Development**

PDC has programmed \$10.5 million for Business Development activities through FY 2014-15. The majority of the budget is programmed for utilizing PDC's Business Incentive Fund ("BIF"). The BIF program is targeted to support PDC's Economic Development Strategy which includes target industry clusters (i.e. Clean Technology, Athletic and Outdoor), high growth businesses and neighborhood economic development.

## **AREA PROPERTY VALUES, TAX INCREMENT REVENUES, AND INDEBTEDNESS**

### **OREGON'S PROPERTY TAX SYSTEM AND ASSESSED VALUES**

In Oregon, the assessor's estimate of a property's market value is called "Real Market Value." In conformance with Measure 5 (see "—SECTION 11B" below), properties also are assigned a "Measure 5 Market Value", which adjusts the Real Market Value to reflect the value of specially assessed properties, including farm and forestland and exempt property. A property's maximum assessed value ("MAV") is the taxable value limit established for each property. The first MAV for each property was set in the 1997-98 tax year. For that year, the MAV was the property's 1995-96 RMV minus 10 percent. MAV can increase (1) to provide for the three percent annual increase allowed by Article XI, Section 11 of the Oregon Constitution ("Section 11"), or (2) to assign value based on specific property events known as "Exceptions." For tax years after 1997-98, MAV is defined as the greater of the prior year's MAV or the prior year's assessed value increased by up to three percent. Properties are assessed at the "Assessed Value" or "AV." Section 11 limits annual increases in Assessed Value, as defined in "PROPERTY TAX AND VALUATION INFORMATION – SECTION 11" herein, to the lesser of MAV or the estimated Real Market Value of the property for fiscal years after 1997-98. For a general discussion of the operation of the Oregon property tax system, and the calculation of Assessed Value, Real Market Value and Incremental Value, see "RISKS TO BOND OWNERS—DECLINES IN ASSESSED VALUE OF PROPERTY IN THE AREA DUE TO MARKET FACTORS" and Appendix E, "CONSULTANT REPORT—INTERSTATE CORRIDOR URBAN RENEWAL AREA – DIVIDE THE TAXES REVENUE PROJECTIONS."

### **HISTORICAL TRENDS IN REAL MARKET VALUES AND ASSESSED VALUES**

The table below presents a five-year history of Real Market Value and Assessed Value in the Area. In FY 2010-11, a large increase in Area utility property value was due to the addition of \$6.2 million of utility property owned by PacifiCorp. Personal property value declined by approximately \$16.4 million in FY 2010-11, including reduced personal property values for Daimler Trucks of North America, with a net loss of \$5.5 million of Assessed Value, and Kaiser Foundation Health Plans, with a combined loss on personal property tax accounts in the Area of \$3.7 million of Assessed Value.

**Table 5**  
**CITY OF PORTLAND, OREGON**  
**Interstate Corridor Urban Renewal Area**  
**HISTORICAL TRENDS IN REAL MARKET AND ASSESSED VALUES**  
**BY PROPERTY TYPE**  
**(FY 2006-07 through FY 2010-11)**

<b>REAL MARKET VALUE</b>					
Property Type	2006-07	2007-08	2008-09	2009-10	2010-11
Real	\$3,481,427,840	\$4,059,260,970	\$4,529,819,170	\$4,630,257,820	\$4,597,618,670
Personal	116,098,846	114,664,881	104,011,913	117,082,189	101,664,838
Manufactured	148,760	147,650	143,080	94,130	90,480
Utility	23,867,317	24,914,736	24,690,550	24,178,368	31,441,593
Total	\$3,621,542,763	\$4,198,988,237	\$4,658,664,713	\$4,771,612,507	\$4,730,815,581
% Change	13.3%	15.9%	10.9%	2.4%	-0.9%

<b>ASSESSED VALUE</b>					
Property Type	2006-07	2007-08	2008-09	2009-10	2010-11
Real	\$1,263,307,180	1,341,999,880	\$1,425,113,250	\$1,513,316,380	1,586,929,500
Personal	110,624,099	114,085,464	103,524,503	116,893,686	100,468,882
Manufactured	148,760	147,650	143,080	92,690	69,010
Utility	23,122,500	24,182,310	24,690,550	24,173,200	31,095,800
Total	\$1,397,202,539	\$1,480,415,304	\$1,553,471,383	\$1,654,475,956	\$1,718,563,192
% Change	6.7%	6.0%	4.9%	6.5%	3.9%
Incremental AV	\$363,829,663	\$447,042,428	\$520,098,507	603,067,607	\$667,154,843
% Change	31.7%	22.9%	16.3%	16.0%	10.6%

Source: Multnomah County Division of Assessment, Recording and Taxation.

The table below shows Assessed Value (“AV”) from FY 2001-02 through FY 2010-11. Over the ten-year period, the average annual compounded increase in Assessed Value of the Area was 5.3 percent. Over this same period, the average annual compounded increase in Incremental Assessed Value was 31.1 percent.

**Table 6**  
**CITY OF PORTLAND, OREGON**  
**Interstate Corridor Urban Renewal Area**  
**ASSESSED VALUE GROWTH**

<b>Fiscal Year</b>	<b>Frozen Base</b>	<b>Incremental Assessed Value</b>	<b>Percent Change Incremental Assessed Value</b>	<b>Total Assessed Value</b>	<b>Percent Change Total Assessed Value</b>
2001-02	\$1,019,794,975	\$58,139,955	-	\$1,077,934,930	-
2002-03 (1)	1,019,370,465	104,464,625	79.7%	1,123,835,090	4.3%
2003-04	1,019,370,465	144,893,801	38.7%	1,164,264,266	3.6%
2004-05 (2)	1,033,372,876	209,114,965	44.3%	1,242,487,841	6.7%
2005-06	1,033,372,876	276,292,476	32.1%	1,309,665,352	5.4%
2006-07	1,033,372,876	363,829,663	31.7%	1,397,202,539	6.7%
2007-08	1,033,372,876	447,042,428	22.9%	1,480,415,304	6.0%
2008-09	1,033,372,876	520,098,507	16.3%	1,553,471,383	4.9%
2009-10 (3)	1,051,408,349	603,067,607	16.0%	1,654,475,956	6.5%
2010-11	1,051,408,349	667,154,843	10.6%	1,718,563,192	3.9%

Notes:

- (1) Reflects transfer of Piedmont Place property from the Area to the Oregon Convention Center Urban Renewal Area.
- (2) Frozen Base value was revised by the Multnomah County Assessor in FY 2004-05 to correct for omissions of property included in the Plan.
- (3) Reflects Amendment 3 to the Plan, which was recorded on March 15, 2004 by Multnomah County.

Source: Multnomah County Division of Assessment, Recording and Taxation.

### **Property Types and Values**

The Assessed Value for new construction and changed property is calculated by multiplying the Real Market Value of the property by the ratio of the Assessed Values to the Real Market Values of comparable properties in a county (the “Changed Property Ratio”). This produces an Assessed Value for new construction and changed property that approximates the Assessed Value of comparable existing properties in an area. The following table presents a five-year history of Changed Property Ratios for Multnomah County for various property classifications. The reduction in the changed property ratio for industrial property beginning in FY 2008-09 reflects the county’s reclassification of certain properties from commercial to industrial use.

**Table 7**  
**CITY OF PORTLAND, OREGON**  
**History of Changed Property Ratios by Property Type**  
**(Multnomah County)**

<b>Fiscal Year Ending June 30</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>
Residential	0.5697	0.5159	0.5046	0.5515	0.6040
Commercial	0.5091	0.4660	0.4345	0.4425	0.4549
Industrial	1.0000	1.0000	0.7649	0.7754	0.8750
Multi-Family	0.5709	0.5639	0.5500	0.5461	0.5420
Recreational	0.6367	0.5841	0.6223	0.6381	0.6565
Miscellaneous	0.7244	0.7221	0.7455	0.6961	0.6863
Personal Property	1.0000	1.0000	1.0000	1.0000	1.0000

Source: Multnomah County Division of Assessment, Recording and Taxation.

The following table shows Assessed Value, Real Market Value, and Assessed Value/Real Market Value Property ratios for types of property in the Area. Note that for purposes of calculating Divide the Taxes Revenues, property taxes are levied on all property types shown in the table.

**Table 8**  
**CITY OF PORTLAND, OREGON**  
**Interstate Corridor Urban Renewal Area**  
**ASSESSED AND REAL MARKET VALUE BY PROPERTY TYPE**  
**(FY 2010-11)**

<b>Property Class</b>	<b>Assessed Value</b>	<b>Percent of Total</b>	<b>Real Market Value</b>	<b>AV/Real Market Value Ratio</b>
Real Property				
Residential	\$917,757,370	53.4%	\$2,360,552,290	38.9%
Commercial	353,433,040	20.6%	1,419,551,450	24.9%
Industrial	233,082,460	13.6%	433,299,370	53.8%
Multi-Family	80,914,360	4.7%	334,377,460	24.2%
Miscellaneous (1)	1,742,270	0.1%	49,838,100	3.5%
Subtotal	1,586,929,500	92.3%	4,597,618,670	
Personal Property	100,468,882	5.8%	101,664,838	98.8%
Manufactured Structures	69,010	0.0%	90,480	76.3%
Utilities	31,095,800	1.8%	31,441,593	98.9%
Total	\$1,718,563,192	100.0%	\$4,730,815,581	

Notes:

- (1) Includes Recreational Property, a portion of Manufactured Property classified as Real Property, and other miscellaneous real property.

Source: Multnomah County Division of Assessment, Recording and Taxation.

The following table shows the Assessed Value and Real Market Value ratios by ratio category for all property types in the Area. Properties with low AV/RMV ratios have substantial room to grow at the three percent limit established by the Oregon Constitution. Approximately 82 percent of properties have AV/RMV ratios below 70 percent as of FY 2010-11.

**Table 9**  
**CITY OF PORTLAND, OREGON**  
**Interstate Corridor Urban Renewal Area**  
**ASSESSED TO REAL MARKET VALUE RATIOS**  
**(FY 2010-11)**

<b>AV/RMV Ratio</b>	<b>Assessed Value</b>	<b>Percent of Total</b>	<b>Cumulative Percent of Total</b>
Under 30%	\$199,366,510	11.6%	11.6%
30 - 39%	265,029,030	15.4	27.0
40 - 49%	594,822,880	34.6	61.6
50 - 59%	265,156,910	15.4	77.1
60 - 69%	86,328,300	5.0	82.1
70 - 79%	47,278,390	2.8	84.8
80 - 89%	17,085,810	1.0	85.8
90 - 99%	21,594,300	1.3	87.1
100%	221,901,062	12.9	100.0
<b>TOTAL</b>	<b>\$1,718,563,192</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Multnomah County Division of Assessment, Recording and Taxation.

### Principal Taxpayers

The principal property taxpayers in the Area are listed in the following table.

**Table 10**  
**CITY OF PORTLAND, OREGON**  
**Interstate Corridor Urban Renewal Area**  
**TOP TEN PROPERTY TAXPAYER ACCOUNTS**

<b>Company Name</b>	<b>Type of Business</b>	<b>2010-11 Assessed Value</b>	<b>Percent of Total Assessed Value</b>
Total Interstate Corridor		\$1,718,563,192	
Kaiser Foundation Health Plan	Health care	64,512,509	3.8%
Adidas Village Corporation	Athletic apparel	38,715,230	2.3
Freightliner Corporation	Truck manufacturing	34,186,930	2.0
Fred Meyer	Retail	31,685,517	1.8
Hayden Meadows	Retail	31,035,320	1.8
Daimler Trucks North America LLC	Truck manufacturing	21,803,804	1.3
Widmer Brothers Brewing Co.	Brewery	17,263,630	1.0
Behringer Harvard Tupelo	Multifamily housing	15,529,930	0.9
Portland General Electric	Energy	15,278,000	0.9
Rosan Inc.	Agricultural commodities	13,785,800	0.8
		<b>\$283,796,670</b>	<b>16.6%</b>

Source: Multnomah County Division of Assessment, Recording and Taxation.

## PROJECTIONS OF FUTURE REAL MARKET VALUE AND ASSESSED VALUE

Projections of Real Market Value and Assessed Value between FY 2011-12 and FY 2015-16 have been provided in a report (the “Consultant Report”) prepared by ECONorthwest. As noted earlier, the Commission is currently engaged in a process to amend the boundaries of the Area to add acreage and Assessed Value. The Incremental Assessed Value associated with this amendment is projected to begin in FY 2012-13. The impacts of this amendment on the Divide the Taxes Revenues have not been included in the Consultant Report. However, based on the property types expected to be added as a result of the amendment, the Consultant Report concludes that the Divide the Taxes Revenues are not likely to experience any negative impact due to the amendment. See CONSULTANT REPORT—“METHODS, ASSUMPTIONS, & PROJECTIONS—Combining the Steps: Calculate Divide the Taxes Revenues—Other Factors that Could Impact Divide the Taxes Revenues—Area expansions” in Appendix E.

The Consultant Report identifies two new development projects that are expected to be added to the tax rolls within the next five fiscal years, which are shown in the table below. See “CONSULTANT REPORT—METHODS, ASSUMPTIONS, & PROJECTIONS—STEP ONE: CALCULATE THE INCREMENTAL ASSESSED VALUE—ASSUMPTIONS FOR REAL MARKET AND ASSESSED VALUE GROWTH—Methods for Forecasting Real Property Assessed Values—New Development and Exception Value” in Appendix E.

**Table 11**  
**CITY OF PORTLAND, OREGON**  
**Interstate Corridor Urban Renewal Area**  
**NEW DEVELOPMENT TO BE ADDED IN FORECAST PERIOD**

<b>Property</b>	<b>SKK LLC</b>	<b>River City Kenton</b>
Type	Commercial	Multi-Family
Completion Date	2012	2014
First Year on Tax Roll	FY 2013-14	FY 2015-16
Real Market Value	\$3,000,000	\$2,500,000
Assessed Value	\$1,364,700	\$1,355,000

Source: ECONorthwest.

The tables below show projected Real Market Value and Assessed Value for property in the Area over the next five years. Real Market Value of real property is projected to decline between FY 2010-11 and FY 2012-13, then increase moderately beginning in FY 2012-13 through the remainder of the forecast interval. Personal property real market value, manufactured property, and utility property real market value are projected to remain stable over the next five years. See Appendix E, “CONSULTANT REPORT—METHODS, ASSUMPTIONS, AND PROJECTIONS” for a description of the methodology used to project Real Market Value in the Area.

Declines in Real Market Value do not necessarily result in reductions in Assessed Value because Real Market Value for many types of real property, including residential, commercial and multi-family housing, has generally been well above the Assessed Value. Assessed Value may grow at three percent as long as it remains below Real Market Value. However, Real Market Value declines or increases of less than three percent will gradually result in higher Assessed Value to Real Market Value ratios. See Appendix E, “CONSULTANT REPORT—METHODS, ASSUMPTIONS, AND PROJECTIONS” for a description of the methodology used to project Assessed Value in the Area.

**Table 12**  
**CITY OF PORTLAND, OREGON**  
**Interstate Corridor Urban Renewal Area**  
**PROJECTED REAL MARKET VALUES**  
**(FY 2011-12 through FY 2015-16)**

<b>Property Type</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>
Real	\$4,416,800,113	\$4,249,168,362	\$4,263,343,214	\$4,338,859,516	\$4,441,545,983
Personal	101,664,838	101,664,838	101,664,838	101,664,838	101,664,838
Manufactured	90,480	90,480	90,480	90,480	90,480
Utility	31,441,593	31,441,593	31,441,593	31,441,593	31,441,593
<b>Total</b>	<b>\$4,549,997,024</b>	<b>\$4,382,365,273</b>	<b>\$4,396,540,125</b>	<b>\$4,472,056,427</b>	<b>\$4,574,742,894</b>
% Change Total RMV	-3.8%	-3.7%	0.3%	1.7%	2.3%

Source: ECONorthwest.

**Table 13**  
**CITY OF PORTLAND, OREGON**  
**Interstate Corridor Urban Renewal Area**  
**PROJECTED ASSESSED VALUES**  
**(FY 2011-12 through FY 2015-16)**

	<b>FY 2011-12</b>	<b>FY 2012-13</b>	<b>FY 2013-14</b>	<b>FY 2014-15</b>	<b>FY 2015-16</b>
Prior Year AV	\$1,718,563,192	\$1,762,664,846	\$1,807,250,222	\$1,857,584,762	\$1,908,431,129
Growth on Base					
Real Property	44,101,654	44,585,376	48,969,840	50,846,367	52,566,946
Personal Property	-	-	-	-	-
Utility Property	-	-	-	-	-
Manufactured Property	-	-	-	-	-
Total Growth/(Loss) on Base	44,101,654	44,585,376	48,969,840	50,846,367	52,566,946
Exception Value (New Development)	-	-	1,364,700	-	1,355,000
Total Assessed Value	\$1,762,664,846	\$1,807,250,222	\$1,857,584,762	\$1,908,431,129	\$1,962,353,075
Percent Change in AV	2.6%	2.5%	2.8%	2.7%	2.8%

Source: ECONorthwest.

**Table 14**  
**CITY OF PORTLAND, OREGON**  
**Interstate Corridor Urban Renewal Area**  
**PROJECTED ASSESSED AND INCREMENTAL ASSESSED VALUE GROWTH**  
**(FY 2011-12 through FY 2015-16)**

	<b>FY 2011-12</b>	<b>FY 2012-13</b>	<b>FY 2013-14</b>	<b>FY 2014-15</b>	<b>FY 2015-16</b>
Total Assessed Value	\$1,762,664,846	\$1,807,250,222	\$1,857,584,762	\$1,908,431,129	\$1,962,353,075
Less: Frozen Base	(\$1,051,408,349)	(\$1,051,408,349)	(\$1,051,408,349)	(\$1,051,408,349)	(\$1,051,408,349)
Incremental Assessed Value	\$711,256,497	\$755,841,873	\$806,176,413	\$857,022,780	\$910,944,726
Incremental AV Growth (%)	6.6%	6.3%	6.7%	6.3%	6.3%

Source: ECONorthwest.



## PROPERTY TAX RATES

### Historical Trends in the Consolidated Tax Rate

The Divide the Taxes Revenues are calculated by multiplying the Incremental Assessed Value of the Area by the consolidated billing tax rate, which is the sum of the tax rates of taxing districts that overlap the Area. The following tables show the consolidated billing tax rate for the past five years, and the breakdown of tax rates attributable to each underlying taxing entity for FY 2010-11.

**Table 15**  
**CITY OF PORTLAND, OREGON**  
**Interstate Corridor Urban Renewal Area**  
**CONSOLIDATED TAX RATE (1)**

<b>Fiscal Year</b>	<b>Permanent Rate (2)</b>	<b>FPD&amp;R Levy</b>	<b>Local Option Levies</b>	<b>G.O. Bond Levies</b>	<b>Consolidated Billing Tax Rate</b>
2006-07	\$15.1382	\$2.2379	\$1.5476	\$0.8868	\$19.8105
2007-08	15.1771	2.3453	2.9326	1.0117	21.4667
2008-09	15.1933	2.6241	2.1400	0.9539	20.9113
2009-10	15.2056	2.6259	2.5426	1.1634	21.5375
2010-11	15.2056	2.6348	2.5426	1.0976	21.4806

Notes:

- (1) Rate per \$1,000 of Assessed Value.
- (2) Permanent rates have varied due to the East Multnomah Soil and Water Conservation District levying at a lower rate in FY 2006-07 through FY 2008-09 than its maximum rate of \$0.1000/\$1,000 of Assessed Value.

Source: Multnomah County Division of Assessment, Recording and Taxation.

**Table 16**  
**CITY OF PORTLAND, OREGON**  
**Interstate Corridor Urban Renewal Area**  
**CONSOLIDATED TAX RATE: FY 2010-11**

<b>Taxing District</b>	<b>Permanent Tax Rate Per \$1,000 A.V.</b>	<b>Local Option And Other Tax Rates (1) Per \$1,000 A.V.</b>	<b>General Obligation Debt Tax Rate Per \$1,000 A.V.</b>	<b>Total Tax Rate Per \$1,000 A.V.</b>
CITY OF PORTLAND	\$4.5770	\$3.0374	\$0.1933	\$7.8077
Multnomah County	4.3434	0.8900	0.1512	5.3846
Metro	0.0966	-	0.3122	0.4088
Port of Portland	0.0701	-	-	0.0701
Tri-County Metropolitan Trans. Dist.	-	-	0.0878	0.0878
East Multnomah Soil & Conservation	0.1000	-	-	0.1000
Subtotal - General Government	\$9.1871	\$3.9274	\$0.7445	\$13.8590
Portland School District	\$5.2781	\$1.2500	\$0.0000	\$6.5281
Portland Community College	0.2828	-	0.3531	0.6359
Multnomah Co. Education Svc. Dist.	0.4576	-	-	0.4576
Subtotal - Schools	\$6.0185	\$1.2500	\$0.3531	\$7.6216
Totals	\$15.2056	\$5.1774	\$1.0976	\$21.4806

Notes:

(1) Includes the City Fire and Police Disability and Retirement pension levy, the Multnomah County local option library levy and the Portland Public Schools local option levy. Does not include impact of urban renewal division of tax rates.

Source: Multnomah County Division of Assessment, Recording and Taxation.

**Projected Consolidated Tax Rate**

ECONorthwest has provided projections of the consolidated tax rate over the next five years. These rates include a voter-approved increase to the Portland Public Schools local option levy, which will increase beginning in FY 2011-12 from \$1.25 per \$1,000 of Assessed Value to \$1.99 per \$1,000 of Assessed Value. See “CONSULTANT REPORT—METHODS, ASSUMPTIONS, AND PROJECTIONS —Step Two: Determine the Consolidated Tax Rates” in Appendix E.

**Table 17**  
**CITY OF PORTLAND, OREGON**  
**Interstate Corridor Urban Renewal Area**  
**PROJECTED CONSOLIDATED TAX RATE (1)**

<b>Fiscal Year</b>	<b>Consolidated Billing Tax Rate</b>
2011-12	\$22.2793
2012-13	22.3083
2013-14	22.2456
2014-15	21.7994
2015-16	21.7343

Notes:

(1) Rate per \$1,000 of Assessed Value.

Source: ECONorthwest.

## OTHER FACTORS AFFECTING DIVIDE THE TAXES REVENUES

### Divide the Taxes Revenue Reductions Due to Measure 5 Compression

Divide the Taxes Revenues may be reduced by Measure 5 compression effects. In FY 2010-11, Measure 5's \$10/\$1,000 of Real Market Value tax limitation was the primary factor in reducing the projected Divide the Taxes property tax collections in the Area from the authorized amount of \$14,330,886 to \$13,395,188, or by about 6.5 percent. Projections of Divide the Taxes Revenues assume losses due to compression of between 5.5 percent and 7.0 percent. See Appendix E, "CONSULTANT REPORT—METHODS, ASSUMPTIONS, AND PROJECTIONS—Step Three: Forecast Compression Loss."

**Table 18**  
**CITY OF PORTLAND, OREGON**  
**Interstate Corridor Urban Renewal Area**  
**PROPERTY TAX LOSSES DUE TO MEASURE 5 COMPRESSION**

<b>Fiscal Year</b>	<b>Divide the Taxes to Raise (1)</b>	<b>Percent Loss (1)</b>	<b>Divide the Taxes Imposed (2)</b>	<b>Percent Increase in Divide the Taxes</b>
2001-02	\$1,188,514	3.6%	\$1,145,888	-
2002-03	2,171,882	6.0%	2,042,616	78.3%
2003-04	3,189,794	8.3%	2,925,195	42.8%
2004-05	4,573,052	7.0%	4,253,189	45.4%
2005-06	5,378,337	5.2%	5,096,068	19.8%
2006-07	7,207,648	4.4%	6,890,112	35.2%
2007-08	9,596,526	4.9%	9,124,016	32.4%
2008-09	10,875,936	4.5%	10,382,389	13.8%
2009-10	12,988,569	5.2%	12,307,163	18.5%
2010-11	14,330,886	6.5%	13,395,188	8.8%

Notes:

- (1) Taxes to be raised are before Measure 5 compression; taxes imposed are after Measure 5 compression. Also includes miscellaneous adjustments by county assessor.
- (2) Before losses due to delinquencies and discounts.

Source: Multnomah County Division of Assessment, Recording and Taxation.

## Divide the Taxes Revenue Reductions Due to Delinquencies

Tax collections are further reduced by delinquencies and discounts. As of June 30, 2011, total property tax collections for FY 2010-11 were approximately 97 percent of the imposed levy excluding discounts and cancellations, as shown in the table below. Collections of current year taxes as of June 30, 2010 were 96.9 percent, excluding discounts. In recent years, taxes collected in the year in which they were levied have generally exceeded 95 percent, as shown in the following table.

**Table 19**  
**CITY OF PORTLAND, OREGON**  
**Tax Collection Record for the Last Ten Years (1)**

<b>Fiscal Year</b>	<b>Total Levy (000) (2)</b>	<b>Collected Yr. of Levy (3)</b>	<b>Collected as of 6/30/2011 (3)</b>
2001-02	\$267,740	96.46%	99.99%
2002-03	283,978	96.57%	99.98%
2003-04	324,709	96.92%	99.98%
2004-05	332,887	97.11%	99.98%
2005-06	346,053	97.20%	99.98%
2006-07	363,073	97.29%	99.95%
2007-08	394,491	97.07%	99.74%
2008-09	397,822	96.43%	99.26%
2009-10	436,332	96.85%	98.69%
2010-11	445,321	97.22%	97.22%

Notes:

- (1) Tax collection information is for Multnomah County, which represents approximately 99.5% of the City's Assessed Value. Small portions of Washington and Clackamas Counties are also included in the City's Assessed Value.
- (2) Includes urban renewal special levy and levy amounts allocated to urban renewal divide the taxes. Levy amounts shown are after Measure 5 compression. For a discussion on Measure 5 compression, see "PROPERTY TAX AND VALUATION INFORMATION – SECTION 11B" herein.
- (3) Collections reflect adjustments for cancellation of taxes, allowed discounts, and taxes added to tax roll due to omissions and corrections. Discounts currently represent the largest adjustment to the tax levy; discounts associated with the 2010-11 tax levy represented about 2.5% of that year's levy.

Sources: Multnomah County Division of Assessment, Recording and Taxation and City of Portland.

## HISTORICAL AND PROJECTED TAX INCREMENT REVENUES AND DEBT SERVICE

The following table shows historical collections of Interstate Corridor Tax Increment Revenues, which were deposited in the Interstate Corridor Debt Service Fund (the "Tax Increment Fund" as defined in the Master Bond Declaration). Results are reported on a budgetary basis.

**Table 20**  
**CITY OF PORTLAND, OREGON**  
**Interstate Corridor Urban Renewal Area**  
**INTERSTATE CORRIDOR TAX INCREMENT REVENUES**  
**AND ANNUAL DEBT SERVICE**  
**(Budgetary Basis)**

	<b>FY 2005-06</b>	<b>FY 2006-07</b>	<b>FY 2007-08</b>	<b>FY 2008-09</b>	<b>FY 2009-10</b>
Tax Increment Revenues					
Net Divide the Taxes Revenues	\$4,912,095	\$6,669,479	\$8,779,015	\$9,908,264	\$11,902,980
Investment earnings	69,397	119,673	115,503	84,104	45,861
<b>Total</b>	<b>\$4,981,492</b>	<b>\$6,789,152</b>	<b>\$8,894,518</b>	<b>\$9,992,368</b>	<b>\$11,948,841</b>
 Debt Service (Parity Indebtedness)	 \$2,533,431	 \$2,530,681	 \$2,532,306	 \$2,532,356	 \$2,531,356

Source: City of Portland.

Table 21 presents historical and projected property values, consolidated tax rates, Divide the Taxes collections and Annual Debt Service on Parity Indebtedness, including the 2011 Bonds. Projections of the Divide the Taxes Revenues have been provided by ECONorthwest. See Appendix E, “CONSULTANT REPORT—METHODS, ASSUMPTIONS, AND PROJECTIONS – Combining the Steps: Calculating Divide the Taxes Revenues.” Divide the Taxes Revenue projections are based on assumptions regarding growth or decline in Incremental Assessed Value in the Area in each of the fiscal years. Also see “RISKS TO BOND OWNERS” regarding factors that could affect the Assessed Value of properties in the Area.

The table shows that the City and the Commission expect to collect adequate Divide the Taxes Revenues to pay projected debt service over the planning period. In all years, the Divide the Taxes Revenues are estimated to exceed two times Annual Debt Service on the 2011 Bonds.

The City expects to issue additional Bonds and currently projects the next bond issue would occur in the last year of the five-year planning period. The table does not include projected debt service for any such Bonds that may be issued.

**Table 21**  
**CITY OF PORTLAND, OREGON**  
**Interstate Corridor Urban Renewal Area**  
**HISTORICAL AND PROJECTED RMV, AV, TAX RATES, AND DIVIDE THE TAXES REVENUES**

Fiscal Year	HISTORICAL					PROJECTED				
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
<b>Real Market Value</b>	\$3,621,542,763	\$4,198,988,237	\$4,658,669,283	\$4,771,666,027	\$4,730,872,751	\$4,549,997,024	\$4,382,365,273	\$4,396,540,125	\$4,472,056,427	\$4,574,742,894
<b>Assessed Value:</b>										
Frozen Base	\$1,033,372,876	\$1,033,372,876	\$1,033,372,876	\$1,051,408,349	\$1,051,408,349	\$1,051,408,349	\$1,051,408,349	\$1,051,408,349	\$1,051,408,349	\$1,051,408,349
Incremental Assessed Value	\$363,829,663	\$447,042,428	\$520,098,507	603,067,607	667,154,843	711,256,497	755,841,873	806,176,413	857,022,780	910,944,726
Total Assessed Value	\$1,397,202,539	\$1,480,415,304	\$1,553,471,383	\$1,654,475,956	\$1,718,563,192	\$1,762,664,846	\$1,807,250,222	\$1,857,584,762	\$1,908,431,129	\$1,962,353,075
<b>Consolidated Tax Rate</b>	\$19.8105	\$21.4667	\$20.9113	\$21.5375	\$21.4806	\$22.2793	\$22.3083	\$22.2456	\$21.7994	\$21.7343
<b>Taxes to be Raised</b>	\$7,207,648	\$9,596,526	\$10,875,936	\$12,988,569	\$14,330,886	\$15,846,297	\$16,861,547	\$17,933,878	\$18,682,582	\$19,798,746
Less Compression Loss	(317,536)	(472,510)	(493,547)	(681,406)	(935,698)	(1,188,472)	(1,264,616)	(1,255,371)	(1,214,368)	(1,187,925)
<b>Taxes Imposed</b>	6,890,112	9,124,016	10,382,389	12,307,163	13,395,188	\$14,657,825	\$15,596,931	\$16,678,507	\$17,468,214	\$18,610,821
Less Discounts, Delinquency	(324,807)	(471,679)	(646,227)	(654,189)	(817,106)	(894,127)	(904,622)	(967,353)	(978,220)	(1,070,122)
<b>Net Divide the Taxes (1)</b>	\$6,565,305	\$8,652,337	\$9,736,162	\$11,652,974	\$12,578,082	\$13,763,698	\$14,692,309	\$15,711,154	\$16,489,994	\$17,540,699
<b>Debt Service (2):</b>										
2004 Bonds	\$2,530,681	\$2,532,306	\$2,532,356	\$2,531,356	\$2,533,131	\$2,533,331	\$2,535,331	\$2,535,131	\$2,532,731	\$2,533,131
2011 Bonds						3,698,140	3,701,344	3,701,542	3,697,763	3,700,739
Total	\$2,530,681	\$2,532,306	\$2,532,356	\$2,531,356	\$2,533,131	\$6,231,471	\$6,236,676	\$6,236,673	\$6,230,494	\$6,233,870
Debt Service Coverage	2.59	3.42	3.84	4.60	4.97	2.21	2.36	2.52	2.65	2.81

Notes:

- (1) Net Divide the Taxes are estimated for FYs 2010-11 through FY 2015-16 assuming a delinquency rate of between 5.6 and 6.1 percent. Amounts shown are for current year collections and exclude collections of prior year taxes.
- (2) Preliminary, subject to change.

Source: Multnomah County Division of Assessment, Recording and Taxation, ECONorthwest, and City of Portland.

## OUTSTANDING INDEBTEDNESS

As of the date of closing of the 2011 Bonds, the City expects to have \$70,055,000\* of outstanding long-term debt for the Area, including the outstanding principal of the 2011 Bonds.

**Table 22**  
**CITY OF PORTLAND, OREGON**  
**Interstate Corridor Urban Renewal Area**  
**OUTSTANDING LONG-TERM DEBT AS OF CLOSING OF THE 2011 BONDS**

<b>Issue Name</b>	<b>Dated Date</b>	<b>Maturity Date</b>	<b>Amount Issued</b>	<b>Amount Outstanding</b>
Interstate Corridor Urban Renewal and Redevelopment Bonds, 2004 Series A	12/9/2004	6/15/2025	\$32,310,000	\$25,185,000
Interstate Corridor Urban Renewal and Redevelopment Bonds, 2011 Series A (1)	8/11/2011 (2)	6/15/2026	\$27,100,000	\$27,100,000
Interstate Corridor Urban Renewal and Redevelopment Bonds, 2011 Series B (1)	8/11/2011 (2)	6/15/2031	\$17,770,000	\$17,770,000
Total			\$77,180,000	\$70,055,000

Notes:

- (1) Preliminary, subject to change.
- (2) Preliminary, subject to change.

Source: City of Portland.

As of the closing date of the 2011 Bonds, a total of \$22,646,978 of additional financing capacity remained on a line of credit established to finance projects of the Area through December 31, 2013. The line of credit is secured by the City's full faith and credit and a lien on the Interstate Corridor Tax Increment Revenues that is subordinate to the lien of Parity Indebtedness.

\*Preliminary, subject to change.

## MAXIMUM INDEBTEDNESS

The Maximum Indebtedness amount for the Area is \$335,000,000. (See “SECURITY FOR THE 2011 BONDS – MAXIMUM INDEBTEDNESS.”) The table below shows the estimated Maximum Indebtedness amount remaining after issuance of the 2011 Bonds and other debt issued between FY 1999-00 through the closing date of the 2011 Bonds.

**Table 23**  
**CITY OF PORTLAND, OREGON**  
**Interstate Corridor Urban Renewal Area**  
**MAXIMUM INDEBTEDNESS, AMOUNTS ISSUED, AND AMOUNTS REMAINING**  
**(as of Date of Closing of the 2011 Bonds)**

Maximum Indebtedness Amount	\$335,000,000
Less: Line of Credit Balance Drawn	43,353,021
Long-Term Bonds (1)	37,216,979
Taxable Short-Term Issues (2)	<u>41,930,000</u>
Remaining Maximum Indebtedness	<u>\$212,500,000</u>

Notes:

- (1) Preliminary, subject to change.
- (2) To comply with requirements that tax increment revenues be spent on bonded indebtedness, the City issues bonds with very short maturities (typically overnight). These bonds, known as “du jour bonds” are typically sold to commercial banks. All such bonds possess a lien on the Interstate Corridor Tax Increment Revenues that is subordinate to the lien of the 2011 Bonds and all other Parity Indebtedness.

Source: City of Portland.



## **RISKS TO BOND OWNERS**

### **GENERAL**

The 2011 Bonds are special, limited obligations of the City and the Commission and are not secured by the general, unrestricted funds of either the City or the Commission. The Interstate Corridor Tax Increment Revenues and other amounts pledged to pay the Bonds may not be sufficient to pay the 2011 Bonds.

### **RECEIPT OF INTERSTATE CORRIDOR TAX INCREMENT REVENUES**

The Interstate Corridor Tax Increment Revenues are generated from the operation of the Oregon property tax system. The City or the Commission must approve budgets and notify the county assessors to collect the Divide the Taxes Revenues. The county assessors must determine the Real Market Value and Assessed Value of property, calculate and collect property taxes and transmit them to the City. Any changes in the practices of the assessors, the property tax laws, or any malfunction of the property tax system may prevent the City from receiving Interstate Corridor Tax Increment Revenues in amounts and at times sufficient to pay the 2011 Bonds. See “THE INITIATIVE PROCESS” herein.

### **DECLINES IN PROPERTY TAX RATES**

The Divide the Taxes Revenues are the result of multiplying the Incremental Assessed Value of property in the Area by the property tax rates imposed by taxing bodies that levy property taxes in the Area. Divide the Taxes Revenues may be reduced below projected levels if (1) Oregon law changes to reduce the tax rates that those taxing bodies are permitted to levy, (2) those taxing bodies decide to collect less property tax than Oregon law currently allows, or (3) voters do not approve the renewal of limited term levies. Historically, certain voter initiatives have affected laws pertaining to the property tax system. See “PROPERTY TAX AND VALUATION INFORMATION – SECTION 11” and “—Section 11B,” and “THE INITIATIVE PROCESS” herein.

The Consultant Report assumes that (1) taxing bodies will continue to impose permanent taxes at their maximum legal levels, and (2) property tax laws will not change. See Appendix E, “CONSULTANT REPORT—METHODS, ASSUMPTIONS, AND PROJECTIONS — Step Two: Determine the Consolidated Tax Rate.” If tax rates are reduced far enough below projected levels, Divide the Taxes Revenues could fall below the level required to pay the 2011 Bonds. The Divide the Taxes Revenues projected in the Consultant’s Report for the next five years are at least 200 percent of Adjusted Maximum Annual Debt Service on the 2011 Bonds.

### **DECLINES IN ASSESSED VALUE OF PROPERTY IN THE AREA DUE TO MARKET FACTORS**

The Divide the Taxes Revenues are the result of multiplying the Incremental Assessed Value of property in the Area by the property tax rates imposed by taxing bodies that overlap the Area. The Incremental Assessed Value changes when the Assessed Value of property in the Area changes.

In Oregon, the Assessed Value of property has a complex relationship to the market value of property. Article XI, Section 11 of the Oregon Constitution established the initial Assessed Value of all property in Fiscal Year 1997-1998 at 90 percent of the property’s market value in Fiscal Year 1995-1996. If property is not subject to an “Exception,” its Assessed Value ordinarily cannot increase by more than three percent per year.

The county assessor determines both the market value and the Assessed Value of property. The market value, as determined by the county assessor, is called the “Real Market Value,” and is the assessor’s estimate of the fair market value of property. Real Market Values of many properties have increased between Fiscal Year 1995-1996 and Fiscal Year 2007-08 at a rate that is greater than three percent, although have declined in recent years due to the economic downturn in the Portland metropolitan area.

“Exceptions” occur when a property has been substantially improved or has new construction, and when a property has been rezoned, subdivided, annexed, or ceases to qualify for a property tax exemption. If an Exception occurs, a portion of the increase in Real Market Value of the property may be added to the property’s Assessed Value. The portion that is added is determined based on the ratio of Assessed Value to Real Market Value for similar properties in the area. Because Assessed Values are usually lower than Real Market Values, the increase in Assessed Value that results from Exceptions is usually less than the increase in Real Market Value that results from Exceptions.

As long as its Real Market Value grows at least three percent annually, the Assessed Value of a property will be equal to its initial Assessed Value, compounded at three percent since Fiscal Year 1995-1996, plus the Assessed Value of any Exceptions, compounded at three percent since the Assessed Values of the Exceptions were added to the tax rolls. The Assessed Values of many Oregon properties are substantially lower than their Real Market Values. This is because (1) the initial Assessed Values were usually less than the Real Market Values, (2) the Assessed Values of Exceptions are usually less than their Real Market Values, and (3) Assessed Values have usually grown at a slower rate than Real Market Values. Article XI, Section 11 of the Oregon Constitution prevents the Assessed Value of a property from exceeding its Real Market Value. Because Real Market Value is often substantially higher than Assessed Value, Assessed Value can continue to grow at three percent per year, even though Real Market Value is declining. However, if the Real Market Value of a property does fall below its Assessed Value, the Assessed Value will be reduced to the property's Real Market Value.

If the Real Market Value of a property declines enough to reduce the Assessed Value of the property and the Real Market Value of the property subsequently increases, the Assessed Value of the property may increase more rapidly than three percent until the Assessed Value reaches the "maximum assessed value" or "MAV" for the property. The MAV is generally equal to the initial Assessed Value, compounded at three percent since Fiscal Year 1995-1996, plus the Assessed Value of any Exceptions, compounded at three percent since the Assessed Value of the Exceptions was added to the tax rolls. See Appendix E, "CONSULTANT REPORT—OVERVIEW: OREGON PROPERTY TAX SYSTEM – PROPERTY TAX BALLOT MEASURES" and "—METHODS, ASSUMPTIONS, AND PROJECTIONS – Step One: Calculate the Incremental Assessed Value – Assumptions for Real Market and Assessed Value Growth."

Under Oregon law, property tax owners may appeal property tax valuations. In general, appeals may be filed for the current tax year only, but very limited exceptions are available for appealing values for prior tax years. Real Market Value and Assessed Value may be adversely affected by successful property tax appeals. For information about property tax appeals in the Area, see AREA PROPERTY VALUES, TAX INCREMENT REVENUES, AND INDEBTEDNESS—HISTORICAL TRENDS IN REAL MARKET VALUES AND ASSESSED VALUES—Appeals."

## **DECLINES IN ASSESSED VALUE OF PROPERTY IN THE AREA DUE TO OTHER FACTORS**

Real Market Value and Assessed Value may be adversely affected by damage or destruction of property, change in use of property, deterioration of conditions in the Area, and reduction in the size of the Area.

Real Market Value and Assessed Value also may be adversely affected if property in the Area becomes eligible for property tax exemption. The City has covenanted to limit its approval of property tax exemptions in the area, but many types of property tax exemptions are not subject to city control or approval, such as exemptions for property that is owned or used by non-profits or state or local governments.

## **MEASURE 5 COMPRESSION**

Divide the Taxes Revenues are subject to the limits of Article XI, Section 11B of the Oregon Constitution ("Measure 5"). Measure 5 limits the total amount of ad valorem property taxes and certain other property charges for general governmental purposes to \$10/\$1,000 of real market value. Collections that exceed that limit are reduced, or "compressed" so that total taxes do not exceed the limit.

Measure 5 compression reduced the Divide the Taxes Revenues collected in Fiscal Year 2010-2011 by approximately 4.4 percent. (See "AREA PROPERTY VALUES, TAX INCREMENT REVENUES, AND INDEBTEDNESS – OTHER FACTORS AFFECTING TAX COLLECTIONS.") If governments impose new taxes that are subject to the \$10/\$1,000 limit, those new taxes may increase the amount of compression of the Divide the Taxes Revenues and reduce the Interstate Corridor Tax Increment Revenues that the City collects. See also "PROPERTY TAX AND VALUATION INFORMATION – Section 11b" herein and Appendix E, "CONSULTANT REPORT—METHODS, ASSUMPTIONS, AND PROJECTIONS – Step Three: Forecast Compression Losses."

## **PROPERTY TAX AND VALUATION INFORMATION**

The property tax is used by Oregon cities, counties, schools and other special districts to raise revenue to partially defray the expense of local government. The State of Oregon has not levied property taxes for General Fund purposes since 1941 and obtains its revenue principally from income taxation.

Oregon voters changed the Oregon property tax system substantially when they approved Ballot Measure 50 in May of 1997. Ballot Measure 50 was a citizen initiative that substantially amended Article XI, Section 11 of the Oregon Constitution (“Section 11”).

### **SECTION 11**

#### **Permanent Tax Rate**

Section 11 of the Oregon Constitution grants all local governments that levied property taxes for operations in FY 1997-1998 a permanent tax rate that was based on the taxing authority of those governments before Ballot Measure 50 was adopted. Permanent tax rates cannot be increased. The City’s permanent tax rate is \$4.5770/\$1,000 of Assessed Value. Revenues from permanent tax rate levies may be spent for any lawful purpose.

#### **Assessed Value**

Section 11 provides that property that was subject to ad valorem taxation in FY 1997-1998 will have an Assessed Value in that fiscal year which is equal to 90 percent of its FY 1995-96 estimated market value. Section 11 limits annual increases in Assessed Value to three percent for fiscal years after 1997-98, unless the property changes because it is substantially improved, rezoned, subdivided, annexed, or ceases to qualify for a property tax exemption.

In Oregon, the assessor’s estimate of market value is called “Real Market Value.” In conformance with Measure 5 (see “SECTION 11B” below), properties also are assigned a “Market Value,” which adjusts the Real Market Value to reflect the value of specially assessed properties, including farm and forestland and exempt property. New construction and changed property is not assessed at its Real Market Value or its Market Value. Instead, it receives an Assessed Value that is calculated by multiplying the Market Value of the property by the ratio of Assessed Values of comparable property in the area to the Market Values of those properties. This produces an Assessed Value for new construction and changed property that approximates to the Assessed Value of comparable property in the area.

#### **Other Property Taxes**

Section 11 requires that new taxes be approved at an election that meets the voter participation requirements described below.

Local governments that have permanent tax rates cannot increase those rates. Local governments (including community colleges and school districts) can obtain the authority to levy “local option taxes.” See “LOCAL OPTION LEVIES” below.

Section 11 limits property tax collections by limiting increases in Assessed Value, by preventing increases in permanent tax rates, and through its voter participation requirements. See “GENERAL OBLIGATION BONDS” below.

In addition to permanent rate levies and local option levies, Section 11 allows the following:

- Some urban renewal areas that existed when Measure 50 was adopted are authorized to impose taxes throughout the boundaries of their creating city or county. The City has five urban renewal areas with this taxing authority.
- The City is authorized to impose a levy to pay its fire and police pension and disability obligations. The City has the authority to levy up to \$2.80/\$1,000 of Real Market Value under this exemption.
- Local governments are authorized to impose taxes to pay voter-approved general obligation bonds (see “General Obligation Bonds” below).

In 2009, the Oregon Legislature approved legislation which allows Portland Public School District to permanently raise its operating tax rate to \$5.27 per \$1,000 of Assessed Value.

## **SECTION 11B**

A citizen initiative, which is often called “Measure 5,” was added to the Oregon Constitution as Article XI, Section 11B (“Section 11B”). Section 11B limits property tax collections by limiting the tax rates (based on Market Value) that are imposed for government operations.

Section 11B divides taxes imposed upon property into two categories: “non-school taxes,” which fund the operations of local governments other than schools, and “school taxes,” which fund operations of the public school system and community colleges. Section 11B limits rates for combined non-school taxes to \$10 per \$1,000 of Market Value and rates for school taxes to \$5 per \$1,000 of Market Value.

If the combined tax rates within a category exceed the rate limit for the category, local option levies are reduced first, and then permanent rate levies, urban renewal special levies and the City’s Fire and Police Disability and Retirement Fund levy are reduced proportionately to bring taxes within the rate limit. Divide the Taxes Revenues are currently reduced by Section 11B more than urban renewal special levies because Divide the Taxes Revenues consist partly of local option levies that are reduced before other levies.

Taxes levied to pay general obligation bonds that comply with certain provisions are not subject to the rate limits of Section 11B.

In addition to limiting ad valorem property taxes, Section 11B also restricts the ability of local governments to impose certain other charges on property and property ownership.

## **LOCAL OPTION LEVIES**

Local governments (including community colleges and school districts) may obtain voter approval to impose local option taxes. Local option taxes are limited to a maximum of 10 years for capital purposes, and a maximum of five years for operating purposes.

Local option levies are subject to the “special compression” under Section 11B. If operating taxes for non-school purposes exceed the \$10/\$1,000 limit, local option levies are reduced first to bring operating taxes into compliance with this limit. This means that local option levies can be entirely displaced by future approval of permanent rate levies for new governments, or by levies for urban renewal areas and the City’s pension levy.

A Multnomah County local option levy for libraries was approved in November 2006. This local option levy took effect in FY 2007-08 and extends for five years at a rate of \$0.8900 per \$1,000 of Assessed Value. In November 2008, voters approved a measure to renew a five-year levy for the Children’s Investment Fund at a rate of \$0.4026 per \$1,000 of Assessed Value. This local option levy took effect in FY 2009-10. In May 2011, voters approved a five-year local option levy for Portland Public Schools at a rate of \$1.9900 per \$1,000 of Assessed Value. This local option levy will replace the current \$1.25 levy beginning in FY 2011-12.

## **ELIGIBLE ELECTIONS**

New local option levies, taxes to pay general obligation bonds (other than refunding bonds), and permanent rate limits for governments that have not previously levied operating taxes must be approved at an election that is held in May or November, or at another election in which not less than 50 percent of the registered voters eligible to vote on the question cast a ballot.

## **GENERAL OBLIGATION BONDS**

Levies to pay certain general obligation bonds are exempt from the limits of Sections 11 and 11B. The provisions of the Oregon Constitution that govern general obligation bonds have changed several times since 1990. Currently local government general obligation bonds can only be approved at an eligible election (described above), and can only be issued to finance certain kinds of capital assets. Beginning January 1, 2011, general obligation bonds can be issued to finance costs of any assets having a useful life of more than one year, but only if the weighted average life of the bonds does not exceed the weighted average life of the assets that are financed with the bonds.

## **COLLECTION**

The county tax collectors extend authorized levies, compute tax rates, bill and collect all taxes and make periodic remittances of collections to tax levying units. County tax collectors are charged with calculating public school and local government taxes separately, calculating any tax rate reductions to comply with tax limitation law, and developing percentage distribution schedules. Tax collectors then report to each taxing district within five days the amount of taxes imposed.

Tax collections are now segregated into two pools, one for public schools and one for local governments, and each taxing body shares in its pool on the basis of its tax rate (adjusted as needed with tax limitation rate caps), regardless of the actual collection experience within each taxing body. Therefore, in application, the amount for each taxing body becomes a pro rata share of the total tax collection record of all taxing bodies within the county. Thus, an overall collection rate of 90 percent of the county-wide levy translates into a 90 percent tax levy collection for each taxing body.

Taxes are levied and become a lien on July 1 and tax payments are due November 15 of the same calendar year. Under the partial payment schedule the first third of taxes are due November 15, the second third on February 15 and the remaining third on May 15. A three-percent discount is allowed if full payment is made by the due date, two-percent for a two-thirds payment. Late payment interest accrues at a rate of 1.33 percent per month. Property is subject to foreclosure proceedings four years after the tax due date.

A Senior Citizen Property Tax Deferral Program (1963) allows homeowners to defer taxes until death or sale of the home. Qualifications include a minimum age of 62 and household income under \$19,500 for claims filed after January 1, 1991; \$18,500 if filed during 1990; or \$17,500 if filed prior to January 1, 1990. Taxes are paid by the State, which obtains a lien on the property and accrues interest at six percent.

## **PROPERTY TAX EXEMPTION PROGRAMS**

### **City Programs**

Various City housing programs provide property tax abatements as a means to encourage construction, rehabilitation, or conversion of housing units within the City. These programs are authorized by State statute and City Code. The City establishes specific criteria that meet statutory guidelines. Programs currently in effect are as follows:

- Non-Profit Owners of Low Income Housing Tax Exemption: This exemption is intended to promote housing for low-income renters, and allows charitable, non-profit owners or managers of residential property to apply for a tax exemption based upon the number of affordable housing units they maintain. The tax exemption is granted for one year, with annual renewals.
- Rental Rehabilitation Program: To preserve rental property, the City offers a ten-year tax abatement (subject to annual review) on improvements to existing rental housing or conversion of existing structures to rental housing. Property owners continue to pay taxes on the Assessed Value of the land and the original improvements to the property and such Assessed Value can not exceed the Assessed Value as it appeared in the most recent assessment roll prior to the application filing date. Property owners must designate a minimum number of units to remain affordable to low-income households during the exemption period.
- Owner-Occupied Rehabilitation Program: To encourage the rehabilitation of owner-occupied housing in designated distressed areas of the City, the City offers a ten-year property tax abatement on the increased Assessed Value of the property resulting from approved rehabilitation. Property owners continue to pay taxes on the Assessed Value of the land and the original improvements to the property, along with any increases to these values allowed under Measure 50.
- Transit Oriented Development Program: This program is intended to promote high-density residential and mixed use development in transit oriented areas. Property owners receive a tax exemption on the residential portion of new construction or conversion of existing structures for up to ten years.
- Single Family New Construction: To encourage the new development of owner-occupied housing in designated distressed areas of the City, the City offers a ten-year property tax abatement on the Assessed Value of the new improvements resulting from the development or redevelopment of the land. Property owners continue to pay taxes on the Assessed Value of the land along with any increases to these values allowed under Measure 50.

- New, Multiple-Unit (Central City) Housing Program: This program provides a property tax exemption for newly constructed multiple-unit housing or conversion of existing structures into multiple-unit housing in the Central City and urban renewal areas for up to ten years.

Because the City and the Commission view property tax exemption programs as important components of promoting affordable housing and economic development within the City, the City may seek to extend existing programs past their current expiration dates or to create new programs.

### **Oregon Enterprise Zone Program**

The Oregon Enterprise Zone program is a State of Oregon economic development program that allows for property tax exemptions for up to five years. In exchange for receiving property tax exemption, participating firms are required to meet the program requirements set by the state statute and the local sponsor. The Commission is the local sponsor for the Portland Enterprise Zone program.

### **Other State Programs**

State statutes authorize other property tax exemptions that are not directly controlled by the City. Among these are property tax exemptions for charitable, educational, and religious institutions; certain health care facilities; historic property; property owned by State, local, and certain federal government agencies; and exemptions for disabled veterans.

## **CITY ECONOMIC CHARACTERISTICS**

The City, with an estimated population of 583,835 as of July 1, 2010, comprises an area of approximately 135 square miles in northwestern Oregon. Located astride the Willamette River at its confluence with the Columbia River, the City is the center of commerce, industry, transportation, finance and services for a metropolitan area with an estimated population of approximately 2.2 million people as of July 1, 2010. 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 24**  
**CITY OF PORTLAND, OREGON**  
**Population Estimate for the Last Ten Years**

<b>As of July 1</b>	<b>State of Oregon</b>	<b>City of Portland</b>	<b>MSA <sup>(1)</sup></b>	<b>Multnomah County</b>	<b>Washington County</b>	<b>Clackamas County</b>
2001	3,471,700	536,240	1,960,500	666,350	455,800	345,150
2002	3,504,700	538,180	1,989,550	670,250	463,050	350,850
2003	3,541,500	545,140	2,019,250	677,850	472,600	353,450
2004	3,582,600	550,560	2,050,650	685,950	480,200	356,250
2005	3,631,440	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	3,844,195	583,835	2,235,580	730,140	532,620	381,775
2001-2010 Compounded						
Annual Rate of Change	1.14%	0.95%	1.47%	1.02%	1.75%	1.13%
2006-2010 Compounded						
Annual Rate of Change	1.03%	0.93%	1.31%	1.00%	1.56%	0.99%

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

	<b>1980</b>	<b>1990</b>	<b>2000</b>	<b>2010</b>
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

Per capita personal income in the MSA has been consistently higher than in the State of Oregon, and until 2007, was higher than in the nation.

Table 25 below shows personal income and per capita income for the MSA compared to similar data for the State and nation. The compounded annual rate of change in total personal income for the MSA from 2000 to 2009 was 3.7 percent. The compounded annual rate of change in per capita income for the MSA was 2.0 percent from 2000 to 2009, compared with 2.6 percent for the State, and 3.0 percent for the nation.

**Table 25**  
**CITY OF PORTLAND, OREGON**  
**Total Personal Income and Per Capita Income**  
**MSA, Oregon, and the United States**

Year	Total Personal Income MSA (000s)	Per Capita Income		
		MSA	Oregon	USA
2000	\$63,462,971	\$32,779	\$28,718	\$30,318
2001	65,340,227	33,074	29,230	31,145
2002	66,298,034	32,973	29,766	31,461
2003	68,222,118	33,541	30,558	32,271
2004	70,926,559	34,552	31,614	33,881
2005	74,750,223	35,868	32,515	35,424
2006	80,794,459	38,040	34,644	37,698
2007	85,305,093	39,428	35,849	39,461
2008	88,977,895	40,376	36,824	40,674
2009	87,893,727	39,206	36,191	39,635
2000-2009 Compounded Annual Rate of Change				
	3.7%	2.0%	2.6%	3.0%

Source: U.S. Department of Commerce, Bureau of Economic Analysis as reported by Oregon Employment Department in April 21, 2011

## LABOR FORCE AND UNEMPLOYMENT

Table 26 below shows the annual average civilian labor force, employment level and unemployment level data that is available for the MSA for the period 2001 through 2010. For May 2011, the seasonally-adjusted unemployment rate for the MSA was 8.8 percent (8.6 percent not seasonally-adjusted) with a resident civilian labor force of 1,187,972. Table 27 below shows the seasonally-unadjusted, average annual unemployment rates for the MSA, the State and the United States for the period 2001 through 2010.

**Table 26**  
**CITY OF PORTLAND, OREGON**  
**MSA Labor Force and Unemployment Rates<sup>(1)</sup>**

<b>Year</b>	<b>Resident Civilian Labor Force</b>	<b>Unemployment</b>		<b>Total Employment</b>
		<b>Number</b>	<b>Percent of Labor Force</b>	
2001	1,087,254	65,569	6.0%	1,021,685
2002	1,093,526	85,191	7.8	1,008,335
2003	1,090,119	90,082	8.3	1,000,037
2004	1,089,204	76,576	7.0	1,012,628
2005	1,097,592	64,282	5.9	1,033,310
2006	1,121,350	56,388	5.0	1,064,962
2007	1,142,519	55,274	4.8	1,087,245
2008	1,169,791	69,708	6.0	1,100,083
2009	1,185,625	127,688	10.8	1,057,937
2010	1,189,827	126,187	10.6	1,063,640

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 April 25, 2011.

**Table 27**  
**CITY OF PORTLAND, OREGON**  
**Average Annual Unemployment**  
**MSA, Oregon, and the United States**  
**(Not Seasonally Adjusted)**

<b>Year</b>	<b>MSA</b>	<b>State of Oregon</b>	<b>USA</b>
2001	6.0%	6.4%	4.7%
2002	7.8	7.6	5.8
2003	8.3	8.1	6.0
2004	7.0	7.3	5.5
2005	5.9	6.2	5.1
2006	5.0	5.3	4.6
2007	4.8	5.2	4.6
2008	6.0	6.5	5.8
2009	10.8	11.1	9.3
2010	10.6	10.8	9.6

Source: Oregon Employment Department as of April 25, 2011.

## 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 28**  
**CITY OF PORTLAND, OREGON**  
**Portland-Vancouver-Hillsboro, Oregon MSA**  
**Non-Farm Wage and Salary Employment <sup>(1)</sup>(000)**

<b>Industry</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Total nonfarm employment	<b>1,015,300</b>	<b>1,034,900</b>	<b>1,034,300</b>	<b>973,800</b>	<b>965,500</b>
Total private	<b>876,400</b>	<b>892,700</b>	<b>887,300</b>	<b>825,700</b>	<b>817,700</b>
Manufacturing	<b>126,600</b>	<b>126,100</b>	<b>123,200</b>	<b>109,100</b>	<b>106,700</b>
Durable goods	96,400	95,700	93,500	81,700	79,300
Wood product manufacturing	6,000	5,600	4,800	3,700	3,500
Primary metal manufacturing	6,300	6,600	7,100	5,800	5,600
Fabricated metal manufacturing	12,900	13,300	13,400	11,100	11,100
Machinery manufacturing	8,400	8,600	8,300	7,000	7,000
Computer/electronic manufacturing	37,700	36,900	35,900	33,900	33,200
Transportation equipment manufacturing	9,300	9,000	8,600	7,000	6,300
Nondurable goods	30,200	30,400	29,600	27,400	27,300
Food manufacturing	8,800	9,100	9,200	9,100	9,300
Paper manufacturing	4,900	4,700	4,500	3,900	3,600
Non-Manufacturing	<b>749,800</b>	<b>766,600</b>	<b>764,200</b>	<b>716,900</b>	<b>711,100</b>
Construction and mining	64,900	66,900	62,400	50,600	45,800
Trade, transportation, and utilities	202,600	205,700	203,900	189,700	186,700
Wholesale Trade	57,500	58,100	57,800	54,400	52,500
Retail trade	107,600	109,800	108,500	101,100	101,100
Transportation, warehousing, and utilities	37,500	37,800	37,600	34,200	33,100
Information	24,000	24,800	24,600	22,900	22,300
Financial activities	70,600	70,400	67,800	63,800	61,800
Professional and business services	134,700	136,400	136,500	124,900	126,600
Educational and health services	123,200	127,800	132,600	135,200	139,000
Leisure and hospitality	94,100	98,000	99,300	94,500	93,900
Other services	35,700	36,600	37,100	35,300	35,000
Government	<b>138,900</b>	<b>142,300</b>	<b>147,000</b>	<b>148,100</b>	<b>147,800</b>

Notes:

(1) Totals may not sum due to rounding.

Source: State of Oregon, Employment Department as of May 19, 2011.

**Table 29**  
**CITY OF PORTLAND, OREGON**  
**Major Employers in the MSA**

<b>Employer</b>	<b>Product or Service</b>	<b>2010 Estimated Employment</b>
<b>Private Employers</b>		
Intel Corporation	Computer and electronic products	15,228
Providence Health System	Health care & health insurance	13,831
Fred Meyer Stores	Grocery & retail variety chain	9,630
Kaiser Foundation of the Northwest	Healthcare	9,204
Legacy Health System	Health care	8,250
NIKE Inc.	Sports shoes and apparel	6,000
Wells Fargo	Bank	4,861
U.S. Bank	Bank & holding company	3,856
Southwest Washington Medical Center	Health care	3,711
Xerox Corp.	Document systems	2,952
Portland General Electric	Utilities	2,783
Regence BlueCross BlueShield of Oregon	Insurance	2,675
Daimler Trucks North America	Heavy duty trucks	2,438
Greenbrier Cos. Inc.	Transportation equipment	1,150
<b>Public Employers</b>		
Oregon Health and Science University	Health care & education	13,283
Multnomah County	Government	6,310
Portland School District	Education	5,101
City of Portland	Government	5,000
Beaverton School District	Education	5,000
Portland Community College	Education	4,000
Portland State University	Education	3,868
Vancouver School District	Education	3,697
Bonneville Power Administration	Public Power	3,000
Evergreen School District	Education	2,651
TriMet	Mass Transit	2,459

Source: Portland Business Journal, December 24, 2010.

## **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 280 industrial and business parks. 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 15,500-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.

While the Portland economy is showing signs of improvement, the industrial sector continues to lag the economic recovery. The overall vacancy rate in the first quarter of 2011 was 8.9 percent compared to 8.5 percent in the fourth quarter of 2010, as reported by Grubb & Ellis in their publication *Industrial Trends Report – First Quarter 2011, Portland, OR*. This vacancy rate was slightly better than the first quarter 2010 rate of 9.1 percent. Grubb & Ellis note that although the net absorption rate for the quarter was negative, at -119,056 square feet, the pace of activity in the industrial marketplace is improving, pointing to stronger net absorption in future quarters as owners begin to occupy space to which they have committed. No new product was delivered in the quarter. About 715,000 square feet of new space is underway, all owner-build or build-to-suit. Construction of a 413,700 square foot building housing auto parts distribution, service training center and regional offices for Subaru of America, Inc. began in February 2011, representing the largest transaction in Portland in the past decade. Additionally, construction of a 165,000 square foot facility with specialized refrigeration capacity for McLane Foods is also underway.

### **Office**

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

The office market saw a modest improvement in all geographic areas in the first quarter of 2011, according to the *Office Trends Report – First Quarter 2011, Portland, OR* prepared by Grubb & Ellis. The first quarter vacancy rate for the Portland region was 14.4 percent, down from the 14.6 percent vacancy rate in the fourth quarter 2010 and also from the first quarter 2010 vacancy rate of 15.3 percent. Improvement was also seen in the suburban market, with a 17.2 percent vacancy rate, compared to a fourth quarter 2010 rate of 17.8 percent and a first quarter 2010 rate of 18.1 percent. Grubb & Ellis report total office market net absorption of over 244,000 square feet of space for the first quarter. Class A office space in the downtown continues to fare better than the rest of the market, with asking rents averaging \$26.04 per square foot compared to \$22.33 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 2011 was \$215,000, down 10.4 percent from the April 2010 year-to-date price of \$239,900, according to the Realtors Metropolitan Area Multiple Listing Service (“RMLS”). Through April 2011, homes in the Portland metropolitan area were on the market an average of 161 days during the year. According to RMLS, through April of 2011, the Southeast and West Portland regions were the most active residential real estate areas, with 672 and 662 closed sales, respectively. Portland metropolitan area closed sales year-to-date were down 6.6 percent from the same period in 2010.

The table below compares the median home sale price for the first quarter of 2010 and 2011 in the Portland region with the nation and western U.S.

**Table 30**  
**CITY OF PORTLAND, OREGON**  
**MEDIAN HOME SALE PRICE**  
**(U.S., West, and Portland Metropolitan Area)**

<b>Region</b>	<b>1st Quarter 2010</b>	<b>1st Quarter 2011</b>	<b>Percent Change</b>
U.S.	\$166,400	\$158,700	-4.6%
West	207,200	197,400	-4.7%
Portland Metro. Area	237,400	213,400	-10.1%

Source: National Association of Realtors and RMLS.

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

**Table 31**  
**CITY OF PORTLAND, OREGON**  
**MEDIAN CONDO/COOP SALE PRICE**  
**(U.S., West, and Portland Metropolitan Area)**

<b>Region</b>	<b>1st Quarter 2010</b>	<b>1st Quarter 2011</b>	<b>Percent Change</b>
U.S.	\$170,600	\$152,900	-10.4%
West	156,000	135,400	-13.2%
Portland Metro. Area	172,200	144,200	-16.3%

Source: National Association of Realtors and RMLS.

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

**Table 32**  
**CITY OF PORTLAND, OREGON**  
**NEW SINGLE FAMILY AND MULTI-FAMILY**  
**RESIDENTIAL CONSTRUCTION PERMITS**

<b>Year</b>	<b>New Single Family</b>		<b>New Multi-Family</b>	
	<b>No. of Permits</b>	<b>Value</b>	<b>No. of Permits</b>	<b>Value</b>
2000	866	\$125,275,273	93	\$62,578,694
2001	1,040	159,218,264	102	46,446,402
2002	1,088	169,816,560	110	92,457,354
2003	1,093	176,408,264	198	195,489,464
2004	956	162,215,542	161	153,283,224
2005	981	172,372,705	196	247,646,057
2006	1,256	232,917,661	164	241,125,419
2007	1,205	236,732,683	179	346,708,925
2008	648	126,171,068	73	410,957,333
2009	427	86,645,801	15	44,978,728
2010	435	95,809,473	30	86,511,573

Source: U.S. Census Bureau as of May 17, 2011.

## **Urban Renewal**

The City seeks to promote neighborhood revitalization through the creation of urban renewal areas. Urban renewal is a state-authorized, redevelopment and finance program designed to help communities improve and redevelop areas that are physically deteriorated, suffering economic stagnation, unsafe or poorly planned. Urban renewal is used as a tool to focus resources in blighted or underused areas to stimulate private investment and improve neighborhood livability.

The City has eleven urban renewal areas, with combined acreage of about 14 percent of the City's area. Five of the 11 urban renewal areas are concentrated in the city's core, including two that are completing their work. Three are largely residential areas in Portland's eastside. The City also has three industrial areas: Central Eastside on the east bank of the Willamette River; Willamette Industrial, located north of the downtown core on the Willamette River; and Airport Way, located in the Columbia corridor, which also has largely completed its urban renewal work. The Portland Development Commission administers the urban renewal areas.

## **TRANSPORTATION AND DISTRIBUTION**

Location and topography have established the City as a leading warehousing and distribution center for the Pacific Northwest. The City's location at the head of deep-water navigation on the Columbia River system gives it geographic and, therefore, economic advantages for the shipment of freight.

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

In 2010, 575 ocean-going vessels made calls at Port facilities. Total maritime tonnage in 2010 increased by 27.6 percent to 13.1 million short tons in 2010 compared to 10.3 million in 2009. Through January 2011, total maritime tonnage was up five percent over the same period in 2010.

The Columbia River ship channel is currently maintained at a depth of 40 feet from the Portland Harbor to the Pacific Ocean 110 miles downstream. In 2005, the Columbia River Channel Deepening Project was initiated to deepen the shipping channel of the Columbia River from 40 feet to 43 feet to accommodate larger, more efficient vessels. This project was completed in October 2010.

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

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

PDX handles approximately 13 million passengers annually, with more than 500 flights daily. This includes nonstop service on international flights to Amsterdam, Netherlands; Vancouver, British Columbia; Toronto, Ontario; and Tokyo, Japan. In 2010, 200,706 short tons of cargo and 8,423 short tons of mail were handled by PDX. Portland is also served by three publicly operated general aviation airports located in the suburban areas.

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

Transportation is facilitated by a highway system that includes I-5, the primary north-south highway artery of the West Coast, and 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 2009 through June 2010, passengers boarded a TriMet bus or train approximately 99.3 million times.

TriMet’s light rail system (“MAX”) connects the cities of Portland, Gresham, Beaverton and Hillsboro, and PDX. In 2007, TriMet started construction of an 8.3 mile, two-phased extension of the light rail line. The estimated cost of the project is \$494 million. Phase 1 provides service along Interstate-205 between Clackamas Town Center and the existing Gateway station where it uses the existing MAX Blue Line tracks to downtown Portland, then run on new tracks along the Portland Mall to Portland State University. Phase 2 would extend light rail from downtown Portland to Milwaukie. TriMet completed construction of Phase 1 with the opening of the MAX green line in September 2009. In 2008, TriMet began service on the Washington County Commuter Rail, which runs from Beaverton to Wilsonville.

The Portland Streetcar connects South Waterfront area along the Willamette River with the Pearl District and Northwest Portland. The Portland Streetcar is owned and operated by the City, and has entered into contracts with TriMet for train operators and mechanics. An extension of the streetcar line to Portland’s east side is currently underway. The extension will cross the Willamette River using the Broadway Bridge, travel through the Lloyd District, continue south along Martin Luther King, Jr. Boulevard, and make a loop at either SE Mill or Stephens Street before returning back along Grand Avenue. The project is expected to be completed in 2011.

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 Memorial Coliseum), as do the major-junior Western Hockey League (“WHL”) Portland Winterhawks. JELD-WEN Field, formerly PGE Park, was recently renovated for major league soccer and is the home of the Major League Soccer (“MLS”) Portland Timbers.

## **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 213 undergraduate, masters, and doctoral programs. Enrollment for 2010-11 was approximately 28,522 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 for 2010-11 was approximately 2,720 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. Portland Art Institute, Western Culinary Institute, University of Western States, Oregon College of Oriental Medicine, National College of Naturopathic Medicine, and East-West College of the Healing Arts are also located in the City.

Several community colleges serve the Portland metropolitan area including 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 Qwest Communications and, in some areas, Verizon. The Portland metropolitan area is also served by three cable service providers, primarily Comcast within the Portland city limits, and Verizon and Cascade Access 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 560,000 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 19.0 percent of the State's Gross Farm and Ranch Sales based on 2010 estimates from the Oregon State University Extension Economic Information Office. The 2010 Gross Farm and Ranch Sales in Clackamas County was \$294,163,000; Washington County was \$227,401,000; Yamhill County was \$216,147,000; Multnomah County was \$57,068,000; and Columbia County was \$19,674,000 as estimated by the Oregon State University Extension Service.

## THE INITIATIVE PROCESS

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

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

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

To place a proposed state-wide initiative on a general election ballot, the proponents must submit to the Secretary of State initiative petitions signed by the number of qualified voters equal to a specified percentage of the total number of votes cast for all candidates for governor at the gubernatorial election at which a governor was elected for a term of four years next preceding the filing of the petition with the Secretary of State. For the 2010 general election, the requirement was eight percent (110,358 signatures) for a constitutional amendment measure and six percent (82,769 signatures) for a statutory initiative. The last day for submitting signed initiative petitions for the 2010 general election was July 2, 2010. 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. The next general election for which state-wide initiative petitions may be filed will be in November, 2012.

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 33**  
**CITY OF PORTLAND, OREGON**  
**Statewide Initiative Petitions that Qualified and Passed**  
**2002-2010**

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

Source: Elections Division, Oregon Secretary of State.

## **FUTURE STATE-WIDE INITIATIVE MEASURES**

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

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

## **LOCAL INITIATIVES**

Article IV, Section 1 and Article XI, Section 2 of the Oregon Constitution and state statutes grant the voters in the City the initiative power to amend the City Charter or City ordinances, and to refer City Ordinances. A petition to refer a City measure must be signed by six percent of the registered voters in the City. A petition to initiate a City measure must be signed by nine percent of the registered voters in the City. No initiative or referendum petitions are currently being circulated that relate to the financial powers of the City. The City Council 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**

### **FEDERAL INCOME TAX**

#### **2011 Series A Bonds – Federally Taxable**

**This advice was written to support the promotion or marketing of the 2011 Series A Bonds. This advice is not intended or written by K&L Gates LLP to be used, and may not be used, by any person or entity for the purpose of avoiding any penalties that may be imposed on any person or entity under the U.S. Internal Revenue Code. Prospective purchasers of the 2011 Series A Bonds should seek advice based on their particular circumstances from an independent tax advisor.**

The following discussion describes aspects of the principal U.S. federal tax treatment of U.S. persons that are beneficial owners ("Owners") of 2011 Series A Bonds. This summary is based on the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), published revenue rulings, administrative and judicial decisions, and existing and proposed Treasury regulations, including regulations concerning the tax treatment of debt instruments issued with original issue discount (the "OID Regulations") (all as of the date hereof and all of which are subject to change, possibly with retroactive effect).

This summary discusses only 2011 Series A Bonds held as capital assets within the meaning of Section 1221 of the Code. It does not discuss all of the tax consequences that may be relevant to an Owner in light of its particular circumstances or to Owners subject to special rules, such as certain financial institutions, insurance companies, tax-exempt organizations, foreign taxpayers, taxpayers who may be subject to the alternative minimum tax or personal holding company provisions of the Code, dealers in securities or foreign currencies, Owners holding the 2011 Series A Bonds as part of a hedging transaction, "straddle," conversion transaction, or other integrated transaction, or Owners whose functional currency (as defined in Section 985 of the Code) is not the U.S. dollar. Except as stated herein, this summary describes no federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the 2011 Series A Bonds. ACCORDINGLY, INVESTORS WHO ARE OR MAY BE DESCRIBED WITHIN THIS PARAGRAPH SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE UNITED STATES FEDERAL INCOME TAX CONSEQUENCES TO SUCH INVESTORS, AS WELL AS TAX CONSEQUENCES ARISING UNDER THE LAWS OF ANY STATE, LOCAL, OR FOREIGN TAXING JURISDICTION OR UNDER ANY APPLICABLE TAX TREATY, OF PURCHASING, HOLDING, OWNING AND DISPOSING OF THE 2010 SERIES A BONDS BEFORE DETERMINING WHETHER TO PURCHASE THE 2010 SERIES A BONDS.

For purposes of this discussion, a "U.S. person" means an individual who, for U.S. federal income tax purposes, is (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, (iii) an estate, the income of which is subject to U.S. federal income taxation regardless of its source of income, or (iv) a trust, if either: (A) a United States court is able to exercise primary supervision over

the administration of the trust, and one or more United States persons have the authority to control all substantial decisions of the trust or (B) a trust has a valid election in effect to be treated as a United States person under the applicable treasury regulations. The term also includes nonresident alien individuals, foreign corporations, foreign partnerships, and foreign estates and trusts ("Foreign Owners") to the extent that their ownership of the 2011 Series A Bonds is effectively connected with the conduct of a trade or business within the United States, as well as certain former citizens and residents of the United States who, under certain circumstances, are taxed on income from U.S. sources as if they were citizens or residents. It should also be noted that certain "single member entities" are disregarded for U.S. federal income tax purposes. Such Foreign Owners and Owners who are single member non-corporate entities, should consult with their own tax advisors to determine the U.S. federal, state, local, and other tax consequences that may be relevant to them.

*In General.* Interest derived from a 2011 Series A Bond by an Owner is subject to U.S. federal income taxation. In addition, a 2011 Series A Bond held by an individual who, at the time of death, is a U.S. person is subject to U.S. federal estate tax.

*Payments of Interest.* Qualified Stated Interest, including additional amounts of cash and interest, if any, paid on the 2011 Series A Bonds will generally be taxable to Owners as ordinary interest income at the time it accrues or is received, in accordance with the Owner's method of accounting for U.S. federal income tax purposes. For purposes of this discussion "Qualified Stated Interest" is stated interest that is unconditionally payable in cash or in property (other than debt instruments of the issuer), or that will be constructively received under Section 451 of the Code, at least annually at a single fixed rate (within the meaning of Treasury Regulation § 1.1273-1(c)(1)(iii)), as defined in Treasury Regulation § 1.1273-1(c).

*Disposition or Retirement.* Upon the sale, exchange or other disposition of a 2011 Series A Bond, or upon the retirement of a 2011 Series A Bond (including by redemption), an Owner will recognize capital gain or loss equal to the difference, if any, between the amount realized upon the disposition or retirement (reduced by any amounts attributable to accrued but unpaid interest, which will be taxable as such) and the Owner's adjusted tax basis in the 2011 Series A Bond. Any such gain or loss will be United States source gain or loss for foreign tax credit purposes. **Under the Bond Declaration, the 2011 Series A Bonds are subject to optional redemption. See "THE 2011 BONDS—REDEMPTION OF THE 2011 BONDS." The 2011 Series A Bonds are subject to defeasance at any time prior to their stated maturities. See APPENDIX A—"MASTER BOND DECLARATION - Defeasance." If the City defeases any 2011 Series A Bonds, such 2011 Series A Bonds may be deemed to be retired and "reissued" for federal income tax purposes as a result of the defeasance. In such event, the Owner of a 2011 Series A Bond would recognize a gain or loss on the 2011 Series A Bond at the time of defeasance.**

An Owner's tax basis for determining gain or loss on the disposition or retirement of a 2011 Series A Bond will be the cost of such 2011 Series A Bond to such Owner, and decreased by the amount of any payments under the 2011 Series A Bond that are part of its stated redemption price at maturity (i.e., all stated interest payments with respect to the 2011 Series A Bonds previously paid). Such gain or loss will be capital gain or loss. Any capital gain or loss will be long-term capital gain or loss if at the time of disposition or retirement the 2011 Series A Bond has been held for more than one year. The deductibility of capital losses is subject to limitations.

*Information Reporting and Backup Withholding.* Payments of interest on 2011 Series A Bonds held of record by U.S. persons other than corporations and other exempt Owners must be reported to the IRS. Such information will be filed each year with the IRS on Form 1099, which will reflect the name, address, and taxpayer identification number of the Owner. A copy of Form 1099 will be sent to each Owner of a 2011 Series A Bond for federal income tax reporting purposes.

Interest paid to an Owner of a 2011 Series A Bond ordinarily will not be subject to withholding of federal income tax if such Owner is a U.S. person. Backup withholding of federal income tax may apply, however, to payments made in respect of the 2011 Series A Bonds, as well as payments of proceeds from the sale of 2011 Series A Bonds, to Owners who are not "exempt recipients" and who fail to provide certain identifying information. This withholding generally applies if the Owner of a 2011 Series A Bond (who is not an exempt recipient) (i) fails to furnish such Owner's social security number or other taxpayer identification number ("TIN"), (ii) furnishes an incorrect TIN, (iii) fails to properly report interest, dividends or other "reportable payments" as defined in the Code, or (iv) under certain circumstances, fails to provide a certified statement, signed under penalty of perjury, that the TIN provided is correct and that such Owner is not subject to backup withholding. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. To prevent backup withholding, each prospective Owner will be requested to complete an appropriate form.

Any amounts withheld under the backup withholding rules from a payment to a person would be allowed as a refund or a credit against such person's U.S. federal income tax, provided that the required information is furnished to the IRS. Furthermore, certain penalties may be imposed by the IRS on an Owner who is required to supply information but who does not do so in the proper manner.

**The federal tax discussion set forth above is included for general information only and may not be applicable depending upon an owner's particular situation. Investors should consult their own tax advisors concerning the tax implications of holding and disposing of the 2011 Series A Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not U.S. persons.**

### **2011 Series B Bonds – Federally Tax-Exempt**

In the opinion of K&L Gates LLP, Bond Counsel, interest on the 2011 Series B Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations.

Federal income tax law contains a number of requirements that apply to the 2011 Series B Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the use of proceeds of the 2011 Series B Bonds and the facilities financed or refinanced with proceeds of the 2011 Series B Bonds and certain other matters. The City has covenanted to comply with all applicable requirements.

Bond Counsel's opinion is subject to the condition that the City comply with the above-referenced covenants and, in addition, will rely on representations by the City and its advisors with respect to matters solely within the knowledge of the City and its advisors, respectively, which Bond Counsel has not independently verified. If the City fails to comply with such covenants or if the foregoing representations are determined to be inaccurate or incomplete, interest on the 2011 Series B Bonds could be included in gross income for federal income tax purposes retroactively to the date of issuance of the 2011 Series B Bonds, regardless of the date on which the event causing taxability occurs.

Except as expressly stated in this Tax Matters section, Bond Counsel expresses no opinion regarding any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the 2011 Series B Bonds. Owners of the 2011 Series B Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the 2011 Series B Bonds, which may include original issue discount, original issue premium, purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, the extent to which interest on the 2011 Series B Bonds is included in adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations, and various withholding requirements.

Prospective purchasers of the 2011 Series B Bonds should be aware that ownership of the 2011 Series B Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," foreign corporations subject to the branch profits tax, life insurance companies and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry or have paid or incurred certain expenses allocable to the 2011 Series B Bonds. Bond Counsel expresses no opinion regarding any collateral tax consequences. Prospective purchasers of the 2011 Series B Bonds should consult their tax advisors regarding collateral federal income tax consequences.

Payments of interest on tax-exempt obligations, such as the 2011 Series B Bonds, are in many cases required to be reported to the Internal Revenue Service (the "IRS"). Additionally, backup withholding may apply to any such payments made to any owner who is not an "exempt recipient" and who fails to provide certain identifying information. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients.

Bond Counsel's opinion is not a guarantee of result and is not binding on the IRS; rather, the opinion represents Bond Counsel's legal judgment based on its review of existing law and in reliance on the representations made to Bond Counsel and the City's compliance with its covenants. The IRS has established an ongoing program to audit tax-exempt obligations to determine whether interest on such obligations is includable in gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS will commence an audit of the 2011 Series B Bonds. Owners of the 2011 Series B Bonds are advised that, if the IRS does audit the 2011 Series B Bonds, under current IRS procedures, at least during the early stages of an audit, the IRS will treat the City as the taxpayer, and the owners of the 2011 Series B Bonds may have limited rights to participate in the audit. The commencement of an audit could adversely affect the market value and liquidity of the 2011 Series B Bonds until the audit is concluded, regardless of the ultimate outcome.

### **OREGON PERSONAL INCOME TAX**

In the opinion of Bond Counsel, interest on the 2011 Bonds is exempt from Oregon personal income taxation.

## **ERISA CONSIDERATIONS**

The Employee Retirement Income Security Act of 1974, as amended (“ERISA”), imposes certain requirements on employee benefit plans subject to Title I of ERISA (“ERISA Plans”), and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA’s general fiduciary requirements, including, but not limited to, the requirements of investment prudence and diversification and the requirement that an ERISA Plan’s investments be made in accordance with the documents governing the Plan.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to Title I of ERISA but are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, “Plans”)) and certain persons (referred to as “parties in interest” or “disqualified persons” (each a “Party in Interest”)) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A Party in Interest who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code.

The fiduciary of a Plan that proposes to purchase and hold any 2011 Series A Bonds should consider, among other things, whether such purchase and holding may involve (i) the direct or indirect extension of credit to a Party in Interest, (ii) the sale or exchange of any property between a Plan and a Party in Interest and (iii) the transfer to, or use by or for the benefit of, a Party in Interest, of any Plan assets. Depending on the identity of the Plan fiduciary making the decision to acquire or hold 2011 Series A Bonds on behalf of a Plan and other factors, U.S. Department of Labor Prohibited Transaction Class Exemption (“PTCE”) 75-1 (relating to certain broker-dealer transactions), PTCE 84-14 (relating to transactions effected by “qualified professional asset managers”), PTCE 90-1 (relating to investments by insurance company pooled separate accounts), PTCE 91-38 (relating to investments by bank collective investment funds), PTCE 95-60 (relating to investments by an insurance company general account), or PTCE 96-23 (relating to transactions directed by certain “in-house asset managers”) could provide an exemption from the prohibited transaction provisions of ERISA and Section 4975 of the Code. In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code generally provide for a statutory exemption from the prohibitions of Section 406(a) of ERISA and Section 4975 of the Code for certain transactions between Plans and persons who are Parties in Interest solely by reason of providing services to such Plans or that are affiliated with such service providers, provided generally that such persons are not fiduciaries (or affiliates of such fiduciaries) with respect to the “plan assets” of any Plan involved in the transaction and that certain other conditions are satisfied.

By its acceptance of a 2011 Series A Bond, each Purchaser will be deemed to have represented and warranted that either (i) no “plan assets” of any Plan have been used to purchase such 2011 Series A Bond, or (ii) the Underwriter is not a Party in Interest with respect to the “plan assets” of any Plan used to purchase such 2011 Series A Bond, or (iii) the purchase and holding of such 2011 Series A Bonds is exempt from the prohibited transaction restrictions of ERISA and Section 4975 of the Code pursuant to a statutory exemption or an administrative class exemption.

Each Plan fiduciary (and each fiduciary for a governmental or church plan subject to the rules similar to those imposed on Plans under Section 406 of ERISA or Section 4975 of the Code) should consult with its legal advisor concerning an investment in any of the 2011 Series A Bonds.

## **RATING**

The 2011 Bonds have been rated “A2” by Moody’s Investors Service. Such rating reflects only the views of such organization and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody’s Investors Service, Inc., 250 Greenwich Street, New York, New York, 10007. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by the rating agency concerned, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of any such ratings may have an adverse effect on the market price of the 2011 Bonds.

## **UNDERWRITING**

On behalf of the Underwriters listed on the cover of this Official Statement, Merrill Lynch, Pierce, Fenner & Smith Incorporated has agreed, subject to certain conditions, to purchase all of the 2011 Series A Bonds, if any are to be purchased, at a price of

\$\_\_\_\_\_ (which is equal to the aggregate principal amount of the 2011 Series A Bonds of \$\_\_\_\_\_, less Underwriter's Discount of \$\_\_\_\_\_).

On behalf of the Underwriters listed on the cover of this Official Statement, Merrill Lynch, Pierce, Fenner & Smith Incorporated has agreed, subject to certain conditions, to purchase all of the 2011 Series B Bonds, if any are to be purchased, at a price of \$\_\_\_\_\_ (which is equal to the aggregate principal amount of the 2011 Series B Bonds of \$\_\_\_\_\_, less Underwriter's Discount of \$\_\_\_\_\_).

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

Citigroup Inc., parent company of Citigroup Global Markets Inc., has entered into a retail brokerage joint venture with Morgan Stanley & Co. LLC. As part of the joint venture, Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, the Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2011 Bonds.

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

## **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.

## **LEGAL MATTERS**

Legal matters incident to the authorization, issuance and sale of the 2011 Bonds by the City are subject to the approving opinion of K&L Gates LLP, Portland, Oregon, Bond Counsel. Bond Counsel has reviewed this Official Statement only to confirm that the portions of it describing the 2011 Bonds, the Ordinance, the Bond Declaration, and the authority to issue the 2011 Bonds conform to the 2011 Bonds and the applicable laws under which they are issued. The statements made in this Official Statement under the captions "THE 2011 BONDS" and "TAX MATTERS" have been reviewed and approved by Bond Counsel. All other representations of law and factual statements contained in this Official Statement, including but not limited to all financial and statistical information and representations contained herein, have not been reviewed or approved by Bond Counsel. Certain other legal matters have been passed upon for the Underwriters by Orrick, Herrington & Sutcliffe LLP, Portland, Oregon, Underwriter's Counsel.

## **LITIGATION**

There is no litigation pending or threatened against the City which impairs the City's ability to make principal and interest payments on the 2011 Bonds when due. There is no litigation pending or threatened against the City which would materially and adversely affect the financial condition of the City.

## **CERTIFICATE WITH RESPECT TO OFFICIAL STATEMENT**

At the time of the original delivery of the 2011 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 2011 Series A Bonds, does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein, in light of the circumstances under which the statements were made, and (ii) between the date of this Official Statement and the date of delivery of the 2011 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 2011 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 G for the benefit of the 2011 Bond holders.

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

## **CONCLUDING STATEMENT**

This Official Statement has been deemed final by the City for purposes of Rule 15c2-12 of the Securities and Exchange Commission. The undersigned certifies that to the best of his knowledge and belief, (i) this Official Statement, both as of its date and as of the date of delivery of the 2011 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 2011 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: \_\_\_\_\_  
Debt Manager  
Office of Management and Finance



---

**APPENDIX A**  
**MASTER BOND DECLARATION**

---



# **BOND DECLARATION**

**City of Portland, Oregon**

**Interstate Corridor Urban Renewal and Redevelopment Bonds**

**2004 Series A**

**Executed by the Debt Manager of the City of Portland, Oregon**

**As of the ninth day of December, 2004**

## **TABLE OF CONTENTS**

<b>SECTION 1.</b>	<b>FINDINGS.</b>	<b>1</b>
<b>SECTION 2.</b>	<b>DEFINITIONS.</b>	<b>1</b>
<b>SECTION 3.</b>	<b>SECURITY FOR BONDS.</b>	<b>7</b>
<b>SECTION 4.</b>	<b>THE TAX INCREMENT FUND.</b>	<b>8</b>
<b>SECTION 5.</b>	<b>PARITY INDEBTEDNESS.</b>	<b>12</b>
<b>SECTION 6.</b>	<b>SUBORDINATE INDEBTEDNESS.</b>	<b>15</b>
<b>SECTION 7.</b>	<b>GENERAL COVENANTS.</b>	<b>15</b>
<b>SECTION 8.</b>	<b>AMENDMENT OF DECLARATION.</b>	<b>17</b>
<b>SECTION 9.</b>	<b>DEFAULT AND REMEDIES.</b>	<b>17</b>
<b>SECTION 10.</b>	<b>OWNERSHIP OF BONDS.</b>	<b>18</b>
<b>SECTION 11.</b>	<b>DEFEASANCE.</b>	<b>19</b>
<b>SECTION 12.</b>	<b>RULES OF CONSTRUCTION.</b>	<b>19</b>
<b>SECTION 13.</b>	<b>THE 2004 SERIES A BONDS.</b>	<b>19</b>
<b>SECTION 14.</b>	<b>PROVISIONS RELATED TO 2004 SERIES A BOND INSURANCE POLICY.</b>	<b>23</b>
<b>SECTION 15.</b>	<b>PROVISIONS RELATED TO 2004 SERIES A RESERVE SUBACCOUNT POLICY.</b>	<b>32</b>
Appendix A	Bond Form - Book-Entry-Only	
Appendix B	Defeasance Obligations	
Appendix C	Permitted Investments	

## **BOND DECLARATION**

THIS BOND DECLARATION is executed as of December 9, 2004, by the Debt Manager of the City of Portland, Oregon pursuant to the authority granted to the Debt Manager by City Ordinance No. 178890 to establish the terms under which the City's Interstate Corridor Urban Renewal and Redevelopment Bonds, 2004 Series A and future parity obligations may be issued.

### **Section 1. Findings.**

The Council finds:

1.1. The City and the Portland Development Commission have formed the Interstate Corridor Urban Renewal Area in compliance with the requirements of Oregon law. The ordinance approving the urban renewal plan was enacted on August 23, 2000, and no petitions were filed with the City or the Portland Development Commission seeking to refer the ordinance creating the plan and the Interstate Corridor Urban Renewal Area to City voters.

1.2. The urban renewal plan for the Interstate Corridor Urban Renewal Area establishes a maximum indebtedness for the District of \$335,000,000. As of the date of this Declaration the City has issued \$41,500,000 of indebtedness for the District, including the 2004 Series A Bonds.

1.3. This Declaration provides the terms under which the City's Interstate Corridor Urban Renewal and Redevelopment Bonds, 2004 Series A are issued. This Declaration also states the terms under which future obligations may be issued on a parity with these Bonds.

1.4. In its Resolution No. 6159, adopted on July 14, 2004, the Portland Development Commission has requested the City to issue the 2004 Series A Bonds pursuant to Section 15-106 of the Charter of the City of Portland.

### **Section 2. Definitions.**

Unless the context clearly requires otherwise, the following terms shall have the following meanings:

"2004 Series A Bond Insurance Policy" means the municipal bond new issue insurance policy issued by the Bond Insurer that guarantees payment of principal of and interest on the Bonds.

"2004 Series A Bond Insurer" means Financial Guaranty Insurance Company, a New York stock insurance company, or any successor thereto.

"2004 Series A Bonds" means the City's Interstate Corridor Urban Renewal and Redevelopment Bonds, 2004 Series A which are described in Section 13 of this Declaration.

"2004 Series A Reserve Credit Facility" means a Credit Facility in which provider of the Credit Facility unconditionally agrees to provide the City with funds to be used to pay debt service on

2004 Series A Bonds, in lieu of making withdrawals from the 2004 Series A Reserve Subaccount.

“2004 Series A Reserve Funding Requirement” means an amount equal to \$2,535,331.26, which is the Maximum Annual Debt Service on the 2004 Series A Bonds as of the date of Closing of the 2004 Series A Bonds.

“2004 Series A Reserve Subaccount” means the subaccount in the Reserve Account that secures the 2004 Series A Bonds and is described in Section 4.4.

“2004 Series A Reserve Subaccount Policy” means the Municipal Bond Debt Service Reserve Fund Policy issued by the 2004 Series A Bond Insurer.

“2004 Series A Valuation Date” means the first Business Day of each Fiscal Year, each date on which amounts are withdrawn from the 2004 Series A Reserve Subaccount, and each Closing date for a Series of Bonds that is secured by the 2004 Series A Reserve Subaccount.

“Accounting Period” means a period of four consecutive weeks.

“Annual Debt Service” means the amount required to be paid in a Fiscal Year of principal and interest on Outstanding Bonds, calculated as follows:

- (i) Interest which is to be paid from proceeds of Bonds shall be subtracted.
- (ii) 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.
- (iii) Bonds which are subject to contingent redemption or tender shall be treated as maturing on their stated maturity dates.
- (iv) Variable Rate Obligations shall bear interest from the date of computation until maturity at their Estimated Average Interest Rate.
- (v) Each Balloon Payment shall be assumed to be paid according to its Balloon Debt Service Requirement.
- (vi) City Payments to be made in the Fiscal Year under a Parity Exchange Agreement shall increase Annual Debt Service, and Reciprocal Payments to be received in the Fiscal Year under a Parity Exchange Agreement shall reduce Annual Debt Service.

“Area” means the Interstate Corridor Urban Renewal Area which is described in the Plan, as it may be amended from time to time.

“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 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 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 12 consecutive months (or thirteen Accounting Periods) from the 24 full months (or 26 Accounting Periods) preceding the issuance of a series of Parity Indebtedness.

“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.

“Bonds” means the 2004 Series A Bonds and any Parity Indebtedness.

“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 Payment” means any scheduled payment required to be made by or on behalf of the City under an 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, Oregon.

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

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

“Commission” means the Portland Development Commission of the City of Portland.

“Committed Debt Service Requirement” means the schedule of principal and interest payments for a Series of 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 Bonds or other obligations, subject only to the conditions which customarily are included in such documents.

“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 Bonds, and which is issued or unconditionally guaranteed by an entity whose long-term debt obligations or claims-paying ability (as appropriate) are rated one of the three

highest rating categories by a Rating Agency which rated the Bonds secured by the Credit Facility. Under rating systems in effect on the date of this Declaration, a rating in one of the three highest rating categories by a Rating Agency would be a rating of “A” or better.

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

“Debt Service Account” means the account of that name in the Parity Indebtedness Fund described in Section 4.2.

“Debt Service” means Bond principal, interest and any premium.

“Declaration” means this Declaration authorizing the 2004 Series A Bonds, as it may be amended from time to time pursuant to Section 8.

“Defeasance Obligations” means (i) direct, noncallable obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury and principal-only and interest-only strips that are issued by the U.S. Treasury); or (ii) noncallable obligations the principal of and interest on which are unconditionally guaranteed by the United States of America; or (iii) any noncallable debt securities listed in Appendix B.

“Divide the Taxes Revenues” means the taxes which are divided based on the increase in value of property in the Area and which are payable to the City or the Commission under the provisions of Article IX, Section 1c of the Oregon Constitution and ORS Chapter 457, as those provisions exist on the date the 2004 Series A Bonds are issued.

“DTC” means the Depository Trust Company of New York, and any successors to its rights and obligations, the initial securities depository for the Bonds.

“Estimated Average Interest Rate” is the interest rate that Variable Rate Obligations are assumed to bear, and shall be calculated as provided in Section 5.5.

“Estimated Debt Service Requirement” means the schedule of principal and interest payments for a hypothetical Series of Bonds that refunds a Balloon Payment that is prepared by the Debt Manager and that meets the requirements of Section 5.6.

“Event of Default” refers to an Event of Default listed in Section 9.1 of this 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 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 Parity Indebtedness 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.

“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 Oregon law.

“Interstate Corridor Tax Increment Revenues” means the Divide the Taxes Revenues, plus earnings on the Tax Increment Fund.

“Levy Year” means a period beginning on the first day of November 1 and ending on the last day of the following October.

“Maximum Annual Debt Service” means the largest Annual Debt Service that occurs after the date for which the calculation is done.

“Outstanding” refers to all Bonds except those which have been paid, canceled, or defeased, and (for Bonds which must be presented to be paid) those which have matured but have not been presented for payment, but for the payment of which adequate money has been transferred to their paying agent.

“Owner” means the person shown on the register maintained by the Paying Agent as the registered owner of a Bond.

“Parity Exchange Agreement” means an Exchange Agreement which qualifies as Parity Indebtedness in accordance with Section 5.

“Parity Indebtedness Fund” means the fund of that name described in Section 4. The Parity Indebtedness Fund is a part of the “Tax Increment Fund.”

“Parity Indebtedness” means obligations issued in compliance with Section 5 of this Declaration which are secured by a lien on, and pledge of, the Security which is on a parity with the lien on, and pledge of, the Security which secures the 2004 Series A Bonds.

“Paying Agent” means the Paying Agent for the Bonds, which, at the time of enactment of this Declaration, is U.S. Bank National Association or its successor.

“Payment Date” means a date on which Bond principal or interest are due, whether at maturity or prior redemption.

“Permitted Investments” means any investments in which the City is authorized to invest surplus funds under the laws of the State of Oregon, and as specified pursuant to Section 14.3 herein.

“Plan” means the Commission's Interstate Corridor Urban Renewal Plan, that was first approved on August 23, 2000, as that plan has been and may be amended in the future.

“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 Declaration.

“Rating Agency” means Fitch, Moody’s, S&P, or any other nationally recognized financial rating agency which has rated Outstanding Bonds 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 an 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” means the date used to determine ownership of Bonds for purposes of making Bond payments. The Record Date for the 2004 Series A Bonds is the last business day of the calendar month immediately preceding each 2004 Series A Bond Payment Date.

“Reserve Account” means the account of that name in the Parity Indebtedness Fund described in Section 4.3 and all subaccounts therein.

“Reserve Funding Requirement” means a set of rules for funding a subaccount in the Reserve Account. Each Reserve Funding Requirement shall indicate the amount that is required to be credited to the subaccount, the dates by which that amount must be credited to the subaccount, and the requirements for restoring amounts to the subaccount if amounts are withdrawn to pay Bonds that are secured by the subaccount. The Reserve Funding Requirement for the 2004 Series A Bonds is specified in Section 4.4.

“Security” for a particular Series of Bonds means the Interstate Corridor Tax Increment Revenues, plus any additional amounts that are pledged to pay that particular Series of Bonds. For the 2004 Series A Bonds, “Security” means (i) the Interstate Corridor Tax Increment Revenues, which are pledged on a parity with all other Bonds; (ii) all amounts credited to the 2004 Series A Reserve Subaccount, which are pledged solely to the 2004 Series A Bonds and any Parity Indebtedness that the City elects to secure with the 2004 Series A Reserve Subaccount; and, (iii) all amounts available under any 2004 Series A Reserve Credit Facilities, which are pledged solely to the 2004 Series A Bonds, and, to the extent permitted by the terms of the 2004 Series A Reserve Credit Facilities, to any Parity Indebtedness that the City elects to secure with the 2004 Series A Reserve Subaccount.

“Series” or “Series of Bonds” refers to all Bonds which are issued at one time, pursuant to a single resolution, ordinance, declaration or other authorizing document of the City, regardless of variations in maturity, interest rate or other provisions, unless the documents authorizing the Bonds declare them to be part of a separate Series.

“Subordinate Indebtedness Account” means the account of that name in the Tax Increment Fund established in Section 4.5.

“Subordinate Indebtedness” means obligations issued in compliance with Section 6 of this Declaration which are secured by a lien on, and pledge of, the Interstate Corridor Tax Increment Revenues which are subordinate to the lien on, and pledge of, the Interstate Corridor Tax Increment Revenues which secure the Bonds.

“Supplemental Declaration” means any Declaration amending or supplementing this Declaration, which is adopted in accordance with Section 8.

“Tax Increment Fund” means the fund established under ORS 457.440(6)(b) to hold the Divide the Taxes Revenues, which is currently called the Interstate Corridor Debt Service Fund.

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

“Taxable Bonds” means Bonds which pay interest which is intended to be includable in gross income under the Code.

“Tax-Exempt Bonds” means Bonds which pay interest which is intended to be excludable from gross income under the Code.

“Variable Rate Obligations” means any Bonds issued with a variable, adjustable, convertible, or other similar interest rate which changes prior to the final maturity date of the 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 3. Security for Bonds.**

3.1. The Bonds shall not be general obligations of the City or the Commission. The City and the Commission shall be obligated to pay the Bonds solely from the Security as provided in this Declaration.

3.2. The City hereby irrevocably pledges the Security to pay the Bonds. Pursuant to ORS 288.594, this pledge shall be valid and binding from the time of the adoption of this Declaration. The amounts so pledged and hereafter received by the City shall immediately be subject to the lien of this pledge without any physical delivery or further act, and the lien of this pledge shall be superior to all other claims and liens whatsoever to the fullest extent permitted by ORS 288.594(2).

3.3. The provisions of this Declaration shall constitute a contract with the Owners, and shall be enforceable by them.

#### **Section 4. The Tax Increment Fund.**

The City has previously established the Tax Increment Fund. The Tax Increment Fund shall contain the Parity Indebtedness Fund and the Subordinate Indebtedness Account. The City may create subaccounts in these funds to the extent permitted by this Declaration, but it shall not create additional funds in the Tax Increment Fund. The Parity Indebtedness Fund shall contain the Debt Service Account and the Reserve Account.

4.1. Beginning with Levy Year 2004-2005 and continuing until all Bonds are paid or defeased, the City shall deposit all Divide the Taxes Revenues in the Tax Increment Fund, and shall credit each deposit to the following accounts within the Tax Increment Fund in the following order of priority:

- (A) To the Debt Service Account, until the Debt Service Account contains an amount sufficient to pay the Annual Debt Service for that Levy Year;
- (B) To the Reserve Account, if the balance in any subaccount of the Reserve Account is then less than its Reserve Funding Requirement, until the balances in all subaccounts of the Reserve Account are equal to their Reserve Funding Requirements; and,
- (C) To the Subordinate Indebtedness Account, any amounts which remain after the foregoing deposits have been made.

4.2. Debt Service Account.

- (A) Money in the Debt Service Account shall be used only to pay Bond principal, interest and premium.
- (B) Amounts credited to the Debt Service Account may be invested in Permitted Investments which mature within one year or in the City's investment pool. Earnings shall be credited as provided in Section 4.6.
- (C) Five (5) days before any payment of principal, premium or interest on the Bonds is due, if the balance in the Debt Service Account is less than the amount due, the City shall credit to the Debt Service Account an amount equal to the deficiency from Interstate Corridor Tax Increment Revenues in the following accounts in the following order of priority:
  - (1) First, from the Subordinate Indebtedness Account; and,
  - (2) Second, from any subaccount in the Reserve Account and any available Reserve Credit Facility that secures the Bonds for which the payment is due, but only to the extent required to pay Bonds that are secured by that subaccount or Reserve Credit Facility.

- (D) If, after the credits described in Section 4.2(C), the balance credited to the Debt Service Account is not sufficient to pay the Bond principal, premium or interest that is then due, the amount credited to the Debt Service Account shall be applied to *pro rata* to pay the amounts that are then due.

#### 4.3. Reserve Account.

- (A) The City shall create a Reserve Account in the Parity Indebtedness Fund, and may create subaccounts in the Reserve Account to secure Bonds. When each subaccount is created, the City shall determine whether the subaccount will secure one or more Series of Bonds. If the City creates a subaccount in the Reserve Account, the City shall, before it issues the first Series of Bonds that is secured by that subaccount, establish the Reserve Funding Requirement for that subaccount and pledge amounts credited to that subaccount to pay the Bonds that are secured by that subaccount.
- (B) The City shall not create any subaccounts in the Reserve Account for any purpose except securing Bonds in accordance with this Declaration.

#### 4.4. The 2004 Series A Reserve Subaccount and the 2004 Series A Reserve Funding Requirement.

- (A) The 2004 Series A Reserve Subaccount is hereby created in the Reserve Account. The 2004 Series A Reserve Subaccount shall secure only the 2004 Series A Bonds. Except as specifically provided in this Section 4.4. amounts credited to the 2004 Series A Reserve Subaccount shall be used only to pay principal, interest and premium on 2004 Series A Bonds that are secured by the 2004 Series A Reserve Subaccount, and only if amounts in the Debt Service Account are not sufficient to make those payments. The City hereby irrevocably pledges the amounts that are credited to the 2004 Series A Reserve Subaccount to pay the 2004 Series A Bonds. Pursuant to ORS 288.594, this pledge shall be valid and binding from the Closing date of the 2004 Series A Bonds. The amounts so pledged and hereafter received by the City shall immediately be subject to the lien of this pledge without any physical delivery or further act, and the lien of this pledge shall be superior to all other claims and liens whatsoever to the fullest extent permitted by ORS 288.594(2).
- (B) At Closing of the 2004 Series A Bonds the City shall deposit into the 2004 Series A Reserve Subaccount an amount equal to the 2004 Series A Reserve Funding Requirement. The deposit may be made from amounts available in the Subordinate Indebtedness Account, from 2004 Series A Bond proceeds, or other amounts available to the City, or may be in the form of one or more 2004 Series A Reserve Credit Facilities.
- (C) The City covenants to maintain a balance in the 2004 Series A Reserve Subaccount which is equal to the 2004 Series A Reserve Funding Requirement, but solely from deposits of Interstate Corridor Tax Increment Revenues pursuant to Section 4.1(B) and a Closing

deposit pursuant to Section 4.4(B). The balance in the 2004 Series A Reserve Subaccount shall be equal to the sum of the following amounts, calculated as of the most recent 2004 Series A Valuation Date: the cash credited to the 2004 Series A Reserve Subaccount; plus the value of Permitted Investments in the 2004 Series A Reserve Subaccount; plus the amount available to be drawn under all 2004 Series A Reserve Credit Facilities.

- (D) If the balance in the 2004 Series A Reserve Subaccount on a 2004 Series A Valuation Date is less than the 2004 Series A Reserve Funding Requirement, the City shall begin making transfers of Interstate Corridor Tax Increment Revenues to the 2004 Series A Reserve Subaccount in accordance with Section 4.1(B).
  - (1) Transfers to the 2004 Series A Reserve Subaccount shall be applied first, to reimburse the providers of any 2004 Series A Reserve Credit Facilities *pro rata* for amounts advanced under those 2004 Series A Reserve Credit Facilities; second, to replenish the balance in the 2004 Series A Reserve Subaccount with cash or Permitted Investments; and third to pay any other amounts owed under a 2004 Series A Reserve Credit Facility (including any interest, fees and penalties associated with any draw under that 2004 Series A Reserve Credit Facility).
  - (2) Transfers under Section 4.1(B) shall commence immediately following each 2004 Series A Valuation Date on which the balance in the 2004 Series A Reserve Subaccount is less than the 2004 Series A Reserve Funding Requirement, and shall continue until the balance in the 2004 Series A Reserve Subaccount is equal to the 2004 Series A Reserve Funding Requirement.
- (E) If the balance in the 2004 Series A Reserve Subaccount on a 2004 Series A Valuation Date is greater than the 2004 Series A Reserve Funding Requirement the City may transfer the excess to the Debt Service Account or the Subordinate Indebtedness Fund.
- (F) Moneys in the 2004 Series A Reserve Subaccount may be invested only in Permitted Investments that mature no later than the final maturity date of the Bonds that are secured by the 2004 Series A Reserve Subaccount, or in the City's investment pool. Earnings shall be credited as provided in Section 4.6.
- (G) Permitted Investments in the 2004 Series A Reserve Subaccount shall be valued on each 2004 Series A Valuation Date in the following manner:
  - (1) Demand deposits, deposits in the City's investment pool and the Oregon Short Term Fund and other investments which mature in two years or less after the 2004 Series A Valuation Date shall be valued at their face amount, plus accrued interest;
  - (2) Investments which mature more than two years after the 2004 Series A 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;

- (3) Investments which mature more than two years after the 2004 Series A 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;
  - (4) Certificates of deposit and bankers acceptances which mature more than two years after the 2004 Series A Valuation Date shall be valued at their face amount, plus accrued interest; and
  - (5) Any investment which is not specified above and which matures more than two years after the 2004 Series A Valuation Date shall be valued at its fair market value as reasonably estimated by the City.
- (H) Withdrawals from the 2004 Series A Reserve Subaccount shall be made in the following order of priority:
- (1) **First**, from any cash on deposit in the 2004 Series A Reserve Subaccount;
  - (2) **Second**, from the liquidation proceeds of any Permitted Investments on deposit in such 2004 Series A Reserve Subaccount; and
  - (3) **Third**, from moneys drawn or paid pro-rata under any 2004 Series A Reserve Credit Facilities.
- (I) All amounts on deposit in the 2004 Series A Reserve Subaccount may be applied to the final payment (whether at maturity or by prior redemption) of Outstanding Bonds. Amounts so applied shall be credited against the amounts the City is required to transfer into the Debt Service Account under Section 4.1(A).
- (J) Amounts in the 2004 Series A Reserve Subaccount may be transferred into escrow to defease 2004 Series A Bonds, but only if the balance remaining in the 2004 Series A Reserve Subaccount after the transfer is at least equal to the 2004 Series A Reserve Funding Requirement for the 2004 Series A Bonds which remain Outstanding after the defeasance.

4.5. Subordinate Indebtedness Account. Interstate Corridor Tax Increment Revenues in the Subordinate Indebtedness Account may be used at any time for any legal purpose permitted under Chapter 457 of the Oregon Revised Statutes. However, if the balance in any subaccount of the Reserve Account is less than the amount specified in the Reserve Funding Requirement for that Subaccount, Interstate Corridor Tax Increment Revenues credited to the Subordinate

Indebtedness Account shall be used to eliminate that deficiency before money in the Subordinate Indebtedness Account is used for any other purpose.

4.6. Earnings. Except as provided below in this Section 4.6, earnings on all funds and accounts in the Tax Increment Fund shall be credited to the Subordinate Indebtedness Account. While the balance in any subaccount in the Reserve Account is less than the amount specified for that subaccount in the applicable Reserve Funding Requirement, earnings on all accounts in the Tax Increment Fund shall be credited to the deficient subaccounts in the Reserve Account, *pro rata* based on the amounts of the deficiencies. If a Reserve Subaccount is funded with Bond proceeds, and the balance in that Reserve Subaccount is equal to its Reserve Funding Requirement, earnings on that Reserve Subaccount shall be credited to the Debt Service Account at the beginning of each Levy Year.

## **Section 5. Parity Indebtedness.**

5.1. Except as provided in Section 5.2, the City may issue Parity Indebtedness only if all of the following conditions are met:

- (A) As of the date of Closing of the Parity Indebtedness, no Event of Default under this Declaration has occurred and is continuing.
- (B) On or before the date of Closing of the Parity Indebtedness the City provides either:
  - (1) a certificate of the Debt Manager stating that the Interstate Corridor Tax Increment Revenues for the Base Period at least equaled one hundred twenty-five percent (125.00%) of the Maximum Annual Debt Service on all then Outstanding Bonds, with the proposed Parity Indebtedness treated as Outstanding; or,
  - (2) both of the following:
    - (I) a certificate or opinion of a Qualified Consultant:
      - (a) stating the projected amount of the Interstate Corridor Tax Increment Revenues for the Fiscal Year in which the proposed Parity Indebtedness is issued and the projected amount of the Interstate Corridor Tax Increment Revenues for each of the four Fiscal Years after the Fiscal Year in which the proposed Parity Indebtedness are issued; and,
      - (b) concluding that the respective amounts of projected Interstate Corridor Tax Increment Revenues in each of the Fiscal Years described in Section 5.1(B)(2)(I)(a) are at least equal to one hundred thirty percent (130.00%) of the Annual Debt Service for each of those respective Fiscal Years on all Outstanding Bonds, with the proposed Parity Indebtedness treated as Outstanding; and,



- (c) stating the projected amount of the Interstate Corridor Tax Increment Revenues for the fifth Fiscal Year after the Fiscal Year in which the Parity Indebtedness are issued; and,
  - (d) concluding that this amount described in Section 5.1(B)(2)(I)(c) is at least equal to one hundred thirty percent (130.00%) of the Maximum Annual Debt Service on all Outstanding Bonds, with the proposed Parity Indebtedness treated as Outstanding; and,
- (II) a certificate of the Debt Manager stating that the Interstate Corridor Tax Increment Revenues for the Base Period at least equaled one hundred percent (100.00%) of the Maximum Annual Debt Service on all then Outstanding Bonds, with the proposed Parity Indebtedness treated as Outstanding.

5.2. The City may issue Parity Indebtedness to refund Outstanding Bonds without complying with Section 5.1. if:

- (A) the refunded Bonds are defeased on the date of delivery of the refunding Parity Indebtedness; and,
- (B) the Annual Debt Service on the refunding Parity Indebtedness does not exceed the Annual Debt Service on the refunded Bonds in any Fiscal Year by more than \$5,000.
- (C) In addition to allowing refunding of Parity Indebtedness which is not a Balloon Payment, this Section 5.2 is intended to allow Balloon Payments to be refunded with Parity Indebtedness when the Annual Debt Service on the refunding Parity Indebtedness does not exceed the Balloon Debt Service Requirement for the refunded Balloon Payment in any Fiscal Year by more than \$5,000.

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

5.4. All Parity Indebtedness issued in accordance with this Section 5 shall have a lien on the Interstate Corridor Tax Increment Revenues which is equal to the lien of all other Outstanding Bonds.

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

- (A) For purposes of calculating Annual Debt Service for determining compliance with Section 7.9, the Estimated Average Interest Rate means the average BMA Index for the 52 week period that ends on or immediately before the end of the month preceding the month in which the calculation is made, expressed as an annualized interest rate, plus fifty basis points (0.50%).
- (1) Unless Section 5.5(A)(2) applies, for purposes of calculating Annual Debt Service for the tests for issuing Parity Indebtedness under Section 5, 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 Indebtedness is sold, expressed as an annualized interest rate; or,
- (2) For any Series of Variable Rate Obligations that have been outstanding for at least 52 weeks at the end of the period described in Section 5.5(A)(1), if the actual, annualized rate on that Series during that 52 week period is greater than the average, annualized rate described in Section 5.5(A)(1), 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.
- (B) To determine the amount that is required to be maintained in the 2004 Series A Reserve Subaccount, the Estimated Average Interest Rate for a Series of Parity Indebtedness that is secured by the 2004 Series A Reserve Subaccount 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 Indebtedness is sold, expressed as an annualized interest rate. This calculation of Estimated Average Interest Rate shall be used for that Series of Parity Indebtedness Obligations as long as that Series of Parity Indebtedness Obligations is Outstanding. This rule shall be used to calculate the amount that is required to be maintained in other subaccounts of the Reserve Account unless otherwise provided in subsequent Supplemental Declarations.

5.6. The Estimated Debt Service Requirement for Balloon Payments shall be calculated in accordance with this Section 5.6.

- (A) Whenever a Balloon Payment will be Outstanding on the date a Series of Parity Indebtedness is issued, the Debt Manager shall prepare a schedule of principal and interest payments for a hypothetical Series of Parity Indebtedness that refunds each Outstanding Balloon Payment in accordance with this Section 5.6. The Debt Manager shall prepare that schedule as of the date the Parity Indebtedness is sold, and that schedule shall be used to determine compliance with the tests for Parity Indebtedness in Section 5.
- (B) Each hypothetical Series of refunding Parity Indebtedness 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

on which the Series of Parity Indebtedness containing the Balloon Payment is issued 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 first day of each Fiscal Year, with the first installment due at least six months after the date on which the Estimated Debt Service Requirement is calculated.

- (C) The hypothetical Series of refunding Parity Indebtedness shall be assumed to bear interest at the Debt Manager's estimate of the average rate that a Series of Parity Indebtedness would bear if it is amortized as provided in Section 5.6(B) and is sold at the time the schedule described in Section 5.6(A) is prepared.

## **Section 6. Subordinate Indebtedness.**

The City may issue Subordinate Indebtedness only if the Subordinate Indebtedness complies with the requirements of this Section 6. Subordinate Indebtedness shall not be payable from any account of the Tax Increment Fund except the Subordinate Indebtedness Account or a subaccount of the Subordinate Indebtedness Account. All Subordinate Indebtedness must state clearly that:

- 6.1. It is secured by a lien on or pledge of the Interstate Corridor Tax Increment Revenues which is subordinate to the lien on, and pledge of, the Interstate Corridor Tax Increment Revenues for the Bonds; and,
- 6.2. It is not payable from any account of the Tax Increment Fund except the Subordinate Indebtedness Account or a subaccount of the Subordinate Indebtedness Account.

## **Section 7. General Covenants.**

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

- 7.1. The City shall promptly cause the principal, premium, if any, and interest on the Bonds to be paid as they become due in accordance with the provisions of this Declaration and any Supplemental Declaration, but solely from the Security.
- 7.2. The City shall maintain complete books and records relating to the Tax Increment Fund, the Interstate Corridor Tax Increment Revenues and the Bonds 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 as required by law, and will make the audits available for inspection by the Owners.
- 7.3. The City shall issue obligations which have a lien or claim on the Security which is on a parity with the lien and claim of the Owners only as provided in Section 5.
- 7.4. The City shall refinance or otherwise provide for the payment of any Balloon Payments not later than the date on which the Balloon Payments are actually due.

7.5. Before the City or the Commission reduces the Area the Debt Manager shall project the Interstate Corridor Tax Increment Revenues which will be available from the Area after it is reduced. Neither the City nor the Commission shall reduce the Area unless the Debt Manager reasonably projects that the Area, after the reduction, will have Interstate Corridor Tax Increment Revenues which are at least equal to one hundred thirty percent (130.00%) of the Maximum Annual Debt Service on all then Outstanding Bonds (calculated as if all Outstanding Bonds were part of a single Series).

7.6. The City and the Commission may approve, grant or provide property tax exemptions, or programs that provide property tax exemptions, that affect property in the Area without limitation, but only if the programs providing those exemptions:

- (A) Are in effect on the date of this Declaration;
- (B) Replace or renew programs that are in effect on the date of this Declaration; or,
- (C) Only grant exemptions to promote affordable housing, or for the value of newly constructed or rehabilitated property.

7.7. Except as provided in Section 7.6, neither the City nor the Commission shall approve, grant or provide any property tax exemption program that affects property in the Area unless, before the program is approved, granted or provided, the Debt Manager reasonably projects that the Interstate Corridor Tax Increment Revenues that will be available from the Area after the program is in effect will at least be equal to one hundred thirty percent (130.00%) of the Maximum Annual Debt Service on all then Outstanding Bonds (calculated as if all Outstanding Bonds were part of a single Series).

7.8. Except as provided in Section 7.6, neither the City nor the Commission shall approve, grant or provide any property tax exemption that is not provided under a property tax exemption program that was approved in compliance with Section 7.7, unless before the exemption is approved, granted or provided, the Debt Manager reasonably projects that the Interstate Corridor Tax Increment Revenues that will be available from the Area after the exemption is in effect will at least be equal to one hundred thirty percent (130.00%) of the Maximum Annual Debt Service on all then Outstanding Bonds (calculated as if all Outstanding Bonds were part of a single Series).

7.9. Laws in effect on the date of this Declaration do not permit the City or the Commission to refuse or limit collection of the Divide the Taxes Revenues. If those laws change and the City or the Commission are permitted to refuse or limit collection of the Divide the Taxes Revenues, the City and the Commission covenant that they shall, to the extent permitted by law, each Fiscal Year, notify the assessors to collect an amount of Divide the Taxes Revenues which results in the City receiving Interstate Corridor Tax Increment Revenues for that Fiscal Year which are at least equal to one hundred ten percent (110.00%) of the Bond principal, interest and premium that is scheduled to be paid in that Fiscal Year.

## **Section 8. Amendment of Declaration.**

8.1. The City may enact a Supplemental Declaration to amend this 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 Declaration;
- (B) To add to the covenants and agreements of the City in this Declaration other covenants and agreements to be observed by the City which are not contrary to or inconsistent with this Declaration as theretofore in effect;
- (C) To confirm, as further assurance, any security interest or pledge created under this Declaration or any Supplemental Declaration;
- (D) To issue Parity Indebtedness or Subordinate Indebtedness;
- (E) To authorize Parity Exchange Agreements, and specify the rights and duties of the parties to a Parity Exchange Agreement; or,
- (F) To make any change which, in the reasonable judgment of the City, does not materially and adversely affect the rights of the Owners of Bonds.

8.2. The City may amend this Declaration for any other purpose, but only if the City obtains the consent of Owners representing not less than fifty-one percent (51%) in aggregate principal amount of the adversely affected Bonds then Outstanding in accordance with Section 10. However, no amendment shall be valid which:

- (A) Extends the maturity of any Bonds, reduces the rate of interest on any Bonds, extends the time of payment of interest on any Bonds, reduces the amount of principal payable on any Bonds, or reduces any premium payable on any Bonds, without the consent of all affected Owners; or
- (B) Reduces the percent of Owners required to approve Supplemental Declarations.

## **Section 9. Default and Remedies.**

9.1. The occurrence of one or more of the following shall constitute an Event of Default under this Declaration:

- (A) Failure by the City to pay Bond principal, interest or premium when due (whether at maturity, or upon redemption after a Bond has been properly called for redemption) as required by this Declaration;
- (B) Failure by the City to observe and perform any covenant, condition or agreement which this Declaration requires the City to observe or perform for the benefit of Owners of Bonds, which failure continues for a period of 60 days after written notice to the City by the Owners of ten percent or more of the principal amount of Bonds then Outstanding

specifying such failure and requesting that it be remedied; provided however, that if the failure stated in the notice cannot be corrected within such 60 day period, it shall not constitute an Event of Default so long as corrective action is instituted by the City within the 60 day period and diligently pursued, and the default is corrected as promptly as practicable after the written notice referred to in this paragraph (B); or,

- (C) The City is adjudged insolvent by a court of competent jurisdiction, admits in writing its inability to pay its debts generally as they become due, files a petition in bankruptcy, or consents to the appointment of a receiver for Interstate Corridor Tax Increment Revenues.

9.2. The Owners of ten percent or more of the principal amount of Bonds then Outstanding may waive any Event of Default and its consequences, except an Event of Default described in Section 9.1(A)

9.3. Upon the occurrence and continuance of any Event of Default hereunder the Owners of ten percent or more of the principal amount of affected Bonds then Outstanding may take whatever action may appear necessary or desirable to enforce or to protect any of the rights of the Owners of Bonds, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement contained in this Declaration or in aid of the exercise of any power granted in this Declaration or for the enforcement of any other legal or equitable right vested in the Owners of Bonds by this Declaration or by law. However, the Bonds shall not be subject to acceleration; and, neither the City nor the Commission shall be required to pay any amounts to Owners (other than the Security) because of an Event of Default described in Section 9.1(A) which occurs because of an insufficiency of the Security.

9.4. No remedy in this Declaration conferred upon or reserved to Owners of Bonds is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Declaration or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. To entitle the Owners of Bonds to exercise any remedy reserved to them, it shall not be necessary to give any notice other than such notice as may be required by this Declaration or by law.

## **Section 10. Ownership of Bonds.**

10.1. For purposes of determining the percentage of Owners consenting to, waiving or otherwise acting with respect to any matter that may arise under this Declaration:

- (A) the initial purchaser of a Series of Bonds may be treated as the Owner of that Series at the time that Series is delivered in exchange for payment; and,
- (B) the issuer of a Credit Facility which insures payment of all principal and interest due on one or more Bonds may be treated as the Owner of all Bonds secured by that Credit Facility.



10.2. For purposes of determining the percentage of Owners taking action under this Declaration, the Owners of Bonds which pay interest only at maturity, and mature more than one year after they are issued shall be treated as Owners of Bonds in an aggregate principal amount equal to the accreted value of such Bonds as of the date the Paying Agent sends out notice of requesting consent, waiver or other action as provided herein.

#### **Section 11. Defeasance.**

The City shall be obligated to pay any Bonds which are defeased in accordance with this Section 11 solely from the money and Defeasance Obligations which are deposited in escrow pursuant to this Section 11. Bonds shall be deemed defeased if the City:

11.1. irrevocably deposits money or noncallable Defeasance Obligations in escrow with an independent trustee or escrow agent which are calculated to be sufficient without reinvestment for the payment of Bonds which are to be defeased; and,

11.2. files with the escrow agent or trustee an opinion from a Qualified Consultant to the effect that the money and the principal and interest to be received from the Defeasance Obligations are calculated to be sufficient, without further reinvestment, to pay the defeased Bonds when due.

#### **Section 12. Rules of Construction.**

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

12.1. References to section numbers shall be construed as references to sections of this Declaration.

12.2. References to one gender shall include all genders.

12.3. References to the singular include the plural, and references to the plural include the singular.

#### **Section 13. The 2004 Series A Bonds.**

13.1. The 2004 Series A Bonds shall be dated December 9, 2004, shall bear interest which is payable on June 15 and December 15 of each year, commencing June 15, 2005, and shall mature on the following dates in the following principal amounts:

<u>Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2006	1,110,000	2.50	2016	1,550,000	5.00
2007	1,135,000	2.50	2017	1,625,000	5.00
2008	1,165,000	3.00	2018	1,710,000	5.25
2009	1,200,000	3.00	2019	1,800,000	5.25
2010	1,235,000	3.50	2020	1,890,000	5.25
2011	1,280,000	3.50	2021	1,990,000	5.25
2012	1,325,000	4.00	2022	2,095,000	4.375
2013	1,380,000	4.00	2023	2,190,000	5.00
2014	1,435,000	4.00	2024	2,295,000	5.00
2015	1,490,000	4.00	2025	2,410,000	5.00

13.2. The 2004 Series A Bonds are subject to redemption at the option of the City on June 15, 2015, 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.

13.3. The 2004 Series A Bonds shall be Tax-Exempt Bonds, and the City covenants not to take any action, or omit to take any action, if the taking or omitting would cause interest on the 2004 Series A Bonds to become includable in gross income under the Code.

13.4. The 2004 Series A Bonds shall be in substantially the form attached hereto as Appendix A, with such changes as may be approved by the Debt Manager. The 2004 Series A Bonds shall be executed on behalf of the City with the facsimile signatures of the Mayor and City Auditor.

13.5. The 2004 Series A Bonds shall be initially issued in BEO form and shall be governed by this Section 13.5. While 2004 Series A Bonds are in BEO form no physical 2004 Series A Bonds shall be provided to Owners of 2004 Series A Bonds. The Debt Manager has executed and delivered a blanket Letter of Representations to DTC. While the 2004 Series A Bonds are in BEO form, registration and transfer of beneficial interests in the 2004 Series A Bonds shall be governed by that letter and the Operational Arrangements of DTC, as they may be amended from time to time, as provided in the blanket Letter of Representations. So long as 2004 Series A Bonds are in BEO form:

- (A) DTC shall be treated as the Owner for all purposes, including payment and the giving of notices to Owners of 2004 Series A Bonds. 2004 Series A Bond payments shall be made, and notices shall be given, to DTC in accordance with the blanket Letter of Representations. 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 2004 Series A Bonds called for redemption or of any other action premised on such notice.
- (B) The City may discontinue maintaining the 2004 Series A Bonds in the BEO form at any time. The City shall discontinue maintaining the 2004 Series A Bonds in BEO form if DTC determines not to continue to act as securities depository for the 2004 Series A Bonds, or fails to perform satisfactorily as depository, and a satisfactory substitute depository cannot reasonably be found.
- (C) If the City discontinues maintaining the 2004 Series A Bonds in BEO form, the City shall cause the Paying Agent to authenticate and deliver replacement 2004 Series A Bonds in fully registered form in denominations of \$5,000 or integral multiples, registered in the names of the beneficial owners or their nominees; thereafter the provisions set forth in Section 13.7. below, regarding registration, transfer and exchange of 2004 Series A Bonds shall apply.
- (D) 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:



- (1) the accuracy of the records of DTC, the nominee or any participant or correspondent with respect to any beneficial owner's interest in the 2004 Series A Bonds;
  - (2) the delivery to any participant or correspondent or any other person of any notice with respect to the 2004 Series A Bonds, including any notice of prepayment;
  - (3) the selection by DTC of the beneficial interest in 2004 Series A Bonds to be redeemed prior to maturity; or
  - (4) the payment to any participant, correspondent, or any other person other than the registered owner of the 2004 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 2004 Series A Bonds.
- (E) The City shall pay or cause to be paid all principal, premium and interest on the 2004 Series A Bonds only to or upon the order of the owner, as shown in the registration books maintained by the Paying Agent, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the City's obligation with respect to payment thereof to the extent of the sum or sums so paid.
- (F) The provisions of this Section 13.5. 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 2004 Series A Bonds issued in BEO form.

#### 13.6. Redemption of 2004 Series A Bonds:

- (A) The City reserves the right to purchase 2004 Series A Bonds in the open market.
- (B) If any 2004 Series A Bonds are subject to mandatory redemption, the City may credit against the mandatory redemption requirement any 2004 Series A Bonds of the same maturity which the City has previously purchased or which the City has previously redeemed pursuant to any optional redemption provision.
- (C) So long as 2004 Series A Bonds are in BEO form, the Paying Agent shall notify DTC of any early redemption not less than 30 days prior to the date fixed for redemption, and shall provide such information in connection therewith as required by the Letter of Representation for the 2004 Series A Bonds.
- (D) During any period in which the 2004 Series A Bonds are not in BEO form, unless waived by any Owner of the 2004 Series A Bonds to be redeemed, official notice of any redemption of 2004 Series A Bonds shall be given by the Paying Agent on behalf of the City by mailing a copy of an official redemption notice by first class mail postage prepaid at least 30 days and not more than 60 days prior to the date fixed for redemption to the Owner of the 2004 Series A Bond or Bonds to be redeemed at the address shown on the 2004 Series A Bond register or at such other address as is furnished in writing by such

Owner to the Paying Agent. The City shall notify the Paying Agent 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:

- (1) the redemption date,
- (2) the redemption price,
- (3) if less than all Outstanding 2004 Series A Bonds are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the 2004 Series A Bonds to be redeemed,
- (4) that on the redemption date the redemption price will become due and payable upon each such 2004 Series A Bond or portion thereof called for redemption, and that interest thereon shall cease to accrue from and after said date, and
- (5) the place where such 2004 Series A Bonds are to be surrendered for payment of the redemption price, which place of payment shall be the principal office of the Paying Agent.

13.7. Authentication, Registration and Transfer.

- (A) No 2004 Series A Bond shall be entitled to any right or benefit under this Declaration unless it shall have been authenticated by an authorized officer of the Paying Agent. The Paying Agent shall authenticate all 2004 Series A Bonds to be delivered at Closing of the 2004 Series A Bonds, and shall additionally authenticate all 2004 Series A Bonds properly surrendered for exchange or transfer pursuant to this Declaration.
- (B) The ownership of all 2004 Series A Bonds shall be entered in the 2004 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 2004 Series A Bond register as the owner of the 2004 Series A Bond for all purposes.
- (C) While the 2004 Series A Bonds are in BEO form, the Paying Agent shall transfer 2004 Series A Bond principal and interest payments in the manner required by DTC.
- (D) If the 2004 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 2004 Series A Bond register as of the Record Date for the 2004 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.
- (E) 2004 Series A Bonds may be exchanged for an equal principal amount of 2004 Series A Bonds of the same maturity which are in different denominations, and 2004 Series A Bonds may be transferred to other Owners if the Owner submits the following to the Paying Agent:

- (1) 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
  - (2) the 2004 Series A Bonds to be exchanged or transferred.
- (F) The Paying Agent shall not be required to exchange or transfer any 2004 Series A Bonds submitted to it during any period beginning with a Record Date and ending on the next following Payment Date; however, such 2004 Series A Bonds shall be exchanged or transferred promptly following that Payment Date.
- (G) The Paying Agent shall note the date of authentication on each 2004 Series A Bond. The date of authentication shall be the date on which the Owner's name is listed on the 2004 Series A Bond register.
- (H) For purposes of this Section 13.7, 2004 Series A Bonds shall be considered submitted to the Paying Agent on the date the Paying Agent actually receives the materials described in Section 13.7(E), above.
- (I) 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 14. Provisions Related to 2004 Series A Bond Insurance Policy.**

##### **14.1. Limitation on Rights of 2004 Series A Bond Insurer.**

- (A) The 2004 Series A Bond Insurer shall be entitled to exercise the rights given to it under this Declaration and the provisions on this Section 14 shall be effective only while the 2004 Series A Bond Insurance Policy is in effect and the 2004 Series A Bond Insurer is not in default under the 2004 Series A Bond Insurance Policy.
- (B) If the 2004 Series A Bond Insurance Policy is not in effect or the 2004 Series A Bond Insurer is in default under that policy, the consent of the 2004 Series A Bond Insurer shall not be required for any action to be taken under this Declaration, notices of certain events shall not be required to be provided to the 2004 Series A Bond Insurer under this Declaration, and the provisions of this Section 14 shall not be in effect.

##### **14.2. Claim Procedures.**

- (A) If, on the third day preceding any interest payment date for the 2004 Series A Bonds there is not on deposit with the Paying Agent sufficient moneys available to pay all principal of and interest on the 2004 Series A Bonds due on such date, the Paying Agent shall immediately notify the 2004 Series A Bond Insurer and U.S. Bank Trust National Association, New York, New York or its successor as its Fiscal Agent (the "Fiscal Agent") of the amount of such deficiency. If, by said interest payment date, the City has

not provided the amount of such deficiency, the Paying Agent shall simultaneously make available to the 2004 Series A Bond Insurer and to the Fiscal Agent the registration books for the 2004 Series A Bonds maintained by the Paying Agent. In addition:

- (1) The Paying Agent shall provide the 2004 Series A Bond Insurer with a list of the Owners of the 2004 Series A Bonds entitled to receive principal or interest payments from the 2004 Series A Bond Insurer under the terms of the 2004 Series A Bond Insurance Policy and shall make arrangements for the 2004 Series A Bond Insurer and its Fiscal Agent (1) to mail checks or drafts to Owners of the 2004 Series A Bonds entitled to receive full or partial interest payments from the 2004 Series A Bond Insurer and (2) to pay principal of the 2004 Series A Bonds surrendered to the Fiscal Agent by the Owners of the 2004 Series A Bonds entitled to receive full or partial principal payments from the 2004 Series A Bond Insurer; and
  - (2) The Paying Agent shall, at the time it makes the registration books available to the 2004 Series A Bond Insurer pursuant to subsection (1) above, notify Owners of the 2004 Series A Bonds entitled to receive the payment of principal of or interest on the 2004 Series A Bonds from the 2004 Series A Bond Insurer (1) as to the fact of such entitlement, (2) that the 2004 Series A Bond Insurer will remit to them all or part of the interest payments coming due subject to the terms of the 2004 Series A Bond Insurance Policy, (3) that, except as provided in paragraph (B) below, in the event that any 2004 Series A Bond Owner is entitled to receive full payment of principal from the 2004 Series A Bond Insurer, such 2004 Series A Bond Owner must tender his 2004 Series A Bond with the instrument of transfer in the form provided on the 2004 Series A Bond executed in the name of the 2004 Series A Bond Insurer, and (4) that, except as provided in paragraph (B) below, in the event that such 2004 Series A Bond Owner is entitled to receive partial payment of principal from the 2004 Series A Bond Insurer, such 2004 Series A Bond Owner must tender his 2004 Series A Bond for payment first to the Paying Agent, which shall note on such 2004 Series A Bond the portion of principal paid by the Paying Agent, and then, with an acceptable form of assignment executed in the name of the 2004 Series A Bond Insurer, to the Fiscal Agent, which will then pay the unpaid portion of principal to the 2004 Series A Bond Owner subject to the terms of the 2004 Series A Bond Insurance Policy.
- (B) In the event that the Paying Agent has notice that any payment of principal of or interest on a 2004 Series A Bond has been recovered from a 2004 Series A Bond Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Paying Agent shall, at the time it provides notice to the 2004 Series A Bond Insurer, notify all Owners of the 2004 Series A Bonds that in the event that any 2004 Series A Bond Owner's payment is so recovered, such 2004 Series A Bond Owner will be entitled to payment from the 2004 Series A Bond Insurer to the extent of such recovery, and the Paying Agent shall furnish to the 2004 Series A Bond Insurer its records evidencing the payments of

principal of and interest on the 2004 Series A Bonds which have been made by the Paying Agent and subsequently recovered from Owners of the 2004 Series A Bonds, and the dates on which such payments were made.

- (C) The 2004 Series A Bond Insurer shall, to the extent it makes payment of principal of or interest on the 2004 Series A Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the 2004 Series A Bond Insurance Policy and, to evidence such subrogation, (i) in the case of subrogation as to claims for past due interest, the Paying Agent shall note the 2004 Series A Bond Insurer's rights as subrogee on the registration books maintained by the Paying Agent upon receipt from the 2004 Series A Bond Insurer of proof of the payment of interest thereon to the Owners of the 2004 Series A Bonds of such 2004 Series A Bonds and (ii) in the case of subrogation as to claims for past due principal, the Paying Agent shall note the 2004 Series A Bond Insurer's rights as subrogee on the registration books for the 2004 Series A Bonds maintained by the Paying Agent upon receipt of proof of the payment of principal thereof to the Owners of the 2004 Series A Bonds of such 2004 Series A Bonds. Notwithstanding anything in this Declaration or the 2004 Series A Bonds to the contrary, the Paying Agent shall make payment of such past due interest and past due principal directly to the 2004 Series A Bond Insurer to the extent that the 2004 Series A Bond Insurer is a subrogee with respect thereto.

14.3. Permitted Investments. Permitted Investments shall be limited to those investments provided in Appendix C attached hereto. Permitted Investments shall be valued by the City as frequently as deemed necessary by the 2004 Series A Bond Insurer, but not less often than annually, at the market value thereof, exclusive of accrued interest. Deficiencies in the amount on deposit in any fund or account resulting from a decline in market value shall be restored no later than the succeeding valuation date.

14.4. 2004 Series A Reserve Funding Requirements. Any credit instrument provided in lieu of a cash deposit into the debt service reserve fund, other than one provided by the 2004 Series A Bond Insurer, shall conform to the following requirements:

- (A) A surety bond or insurance policy issued to Paying Agent (the "Paying Agent"), as agent of the Owners, by a company licensed to issue an insurance policy guaranteeing the timely payment of debt service on the 2004 Series A Bonds (a "municipal bond insurer") may be deposited in the 2004 Series A Reserve Subaccount to meet the 2004 Series A Reserve Funding Requirement if the claims paying ability of the issuer thereof shall be rated "AAA" or "Aaa" by S&P or Moody's, respectively.
- (B) A surety bond or insurance policy issued to the Paying Agent, as agent of the Owners, by an entity other than a municipal bond insurer may be deposited in the 2004 Series A Reserve Subaccount to meet the 2004 Series A Reserve Funding Requirement if the form and substance of such instrument and the issuer thereof shall be approved by 2004 Series A Bond Insurer.



- (C) An unconditional irrevocable letter of credit issued to the Paying Agent, as agent of the Owners, by a bank may be deposited in the 2004 Series A Reserve Subaccount to meet the 2004 Series A Reserve Funding Requirement if the issuer thereof is rated at least “AA” by S&P. The letter of credit shall be payable in one or more draws upon presentation by the beneficiary of a sight draft accompanied by its certificate that it then holds insufficient funds to make a required payment of principal or interest on the 2004 Series A Bonds. The draws shall be payable within two days of presentation of the sight draft. The letter of credit shall be for a term of not less than three years. The issuer of the letter of credit shall be required to notify the City and the Paying Agent, not later than 30 months prior to the stated expiration date of the letter of credit, as to whether such expiration date shall be extended, and if so, shall indicate the new expiration date.
- (D) If such notice indicates that the expiration date shall not be extended, the City shall deposit in the 2004 Series A Reserve Subaccount an amount sufficient to cause the cash or permitted investments on deposit in the 2004 Series A Reserve Subaccount together with any other qualifying credit instruments, to equal the 2004 Series A Reserve Funding Requirement on all outstanding 2004 Series A Bonds, such deposit to be paid in equal installments on at least a semi-annual basis over the remaining term of the letter of credit, unless the 2004 Series A Reserve Subaccount credit instrument is replaced by a 2004 Series A Reserve Subaccount credit instrument meeting the requirements in any of Subsections (A) - (C) above. The letter of credit shall permit a draw in full not less than two weeks prior to the expiration or termination of such letter of credit if the letter of credit has not been replaced or renewed. The Paying Agent shall draw upon the letter of credit prior to its expiration or termination unless an acceptable replacement is in place or the 2004 Series A Reserve Subaccount is fully funded in its required amount.
- (E) The use of any 2004 Series A Reserve Subaccount credit instrument pursuant to this Subsection (E) shall be subject to receipt of an opinion of counsel acceptable to 2004 Series A Bond Insurer and in form and substance satisfactory to 2004 Series A Bond Insurer as to the due authorization, execution, delivery and enforceability of such instrument in accordance with its terms, subject to applicable laws affecting creditors’ rights generally, and, in the event the issuer of such credit instrument is not a domestic entity, an opinion of foreign counsel in form and substance satisfactory to 2004 Series A Bond Insurer. In addition, the use of an irrevocable letter of credit shall be subject to receipt of an opinion of counsel acceptable to 2004 Series A Bond Insurer and in form and substance satisfactory to 2004 Series A Bond Insurer to the effect that payments under such letter of credit would not constitute avoidable preferences under Section 547 of the U.S. Bankruptcy Code or similar state laws with avoidable preference provisions in the event of the filing of a petition for relief under the U.S. Bankruptcy Code or similar state laws by or against the City (or any other account party under the letter of credit).
- (F) The obligation to reimburse the issuer of a 2004 Series A Reserve Subaccount credit instrument for any fees, expenses, claims or draws upon such 2004 Series A Reserve Subaccount credit instrument shall be subordinate to the payment of debt service on the 2004 Series A Bonds. The right of the issuer of a 2004 Series A Reserve Subaccount credit instrument to payment or reimbursement of its fees and expenses shall be

subordinated to cash replenishment of the 2004 Series A Reserve Subaccount, and, subject to the second succeeding sentence, its right to reimbursement for claims or draws shall be on a parity with the cash replenishment of the 2004 Series A Reserve Subaccount. The 2004 Series A Reserve Subaccount credit instrument shall provide for a revolving feature under which the amount available thereunder will be reinstated to the extent of any reimbursement of draws or claims paid. If the revolving feature is suspended or terminated for any reason, the right of the issuer of the 2004 Series A Reserve Subaccount credit instrument to reimbursement will be further subordinated to cash replenishment of the 2004 Series A Reserve Subaccount to an amount equal to the difference between the full original amount available under the 2004 Series A Reserve Subaccount credit instrument and the amount then available for further draws or claims. If (a) the issuer of a 2004 Series A Reserve Subaccount credit instrument becomes insolvent or (b) the issuer of a 2004 Series A Reserve Subaccount credit instrument defaults in its payment obligations thereunder or (c) the claims-paying ability of the issuer of the insurance policy or surety bond falls below a S&P "AAA" or a Moody's "Aaa" or (d) the rating of the issuer of the letter of credit falls below a S&P "AA", the obligation to reimburse the issuer of the 2004 Series A Reserve Subaccount credit instrument shall be subordinate to the cash replenishment of the 2004 Series A Reserve Subaccount.

- (G) If (a) the revolving reinstatement feature described in the preceding paragraph is suspended or terminated or (b) the rating of the claims paying ability of the issuer of the surety bond or insurance policy falls below a S&P "AAA" or a Moody's "Aaa" or (c) the rating of the issuer of the letter of credit falls below a S&P "AA", the City shall either (i) deposit into the 2004 Series A Reserve Subaccount an amount sufficient to cause the cash or Permitted Investments on deposit in the 2004 Series A Reserve Subaccount to equal the 2004 Series A Reserve Funding Requirement on all outstanding 2004 Series A Bonds, such amount to be paid over the ensuing five years in equal installments deposited at least semi-annually or (ii) replace such instrument with a surety bond, insurance policy or letter of credit meeting the requirements in any of Subsections (A) - (C) above within six months of such occurrence. In the event (a) the rating of the claims-paying ability of the issuer of the surety bond or insurance policy falls below "A" or (b) the rating of the issuer of the letter of credit falls below "A" or (c) the issuer of the 2004 Series A Reserve Subaccount credit instrument defaults in its payment obligations or (d) the issuer of the 2004 Series A Reserve Subaccount credit instrument becomes insolvent, the City shall either (i) deposit into the 2004 Series A Reserve Subaccount an amount sufficient to cause the cash or Permitted Investments on deposit in the 2004 Series A Reserve Subaccount to equal to 2004 Series A Reserve Funding Requirement on all outstanding 2004 Series A Bonds, such amount to be paid over the ensuing year in equal installments on at least a monthly basis or (ii) replace such instrument with a surety bond, insurance policy or letter of credit meeting the requirements in any of Subsections (A)- (C) above within six months of such occurrence.
- (H) Where applicable, the amount available for draws or claims under the 2004 Series A Reserve Subaccount credit instrument may be reduced by the amount of cash or Permitted Investments deposited in the 2004 Series A Reserve Subaccount pursuant to clause (i) of the preceding Subsection (G).

- (I) If the City chooses the above described alternatives to a cash-funded 2004 Series A Reserve Subaccount, any amounts owed by the City to the issuer of such credit instrument as a result of a draw thereon or a claim thereunder, as appropriate, shall be included in any calculation of debt service requirements required to be made pursuant to this Declaration for any purpose, *e.g.*, rate covenant or Parity Indebtedness test.
- (J) The Paying Agent shall ascertain the necessity for a claim or draw upon the 2004 Series A Reserve Subaccount credit instrument and to provide notice to the issuer of the 2004 Series A Reserve Subaccount credit instrument in accordance with its terms not later than three days (or such longer period as may be necessary depending on the permitted time period for honoring a draw under the 2004 Series A Reserve Subaccount credit instrument) prior to each interest payment date.
- (K) Cash on deposit in the 2004 Series A Reserve Subaccount shall be used (or investments purchased with such cash shall be liquidated and the proceeds applied as required) prior to any drawing on any 2004 Series A Reserve Subaccount credit instrument. If and to the extent that more than one 2004 Series A Reserve Subaccount credit instrument is deposited in the 2004 Series A Reserve Subaccount, drawings thereunder and repayments of costs associated therewith shall be made on a pro rata basis, calculated by reference to the maximum amounts available thereunder.

14.5. Redemption Notices. Notice of any redemption of 2004 Series A Bonds shall either (i) explicitly state that the proposed redemption is conditioned on there being on deposit in the applicable fund or account on the redemption date sufficient money to pay the full redemption price of the 2004 Series A Bonds to be redeemed, or (ii) be sent only if sufficient money to pay the full redemption price of the 2004 Series A Bonds to be redeemed is on deposit in the applicable fund or account.

14.6. Default-Related Provisions.

- (A) The City shall, to the extent there are no other available funds held under this Declaration, use the remaining funds in the construction fund to pay principal of or interest on the 2004 Series A Bonds in the event of a payment default.
- (B) In determining whether a payment default has occurred or whether a payment on the 2004 Series A Bonds has been made under the authorizing document(s), no effect shall be given to payments made under the 2004 Series A Bond Insurance Policy.
- (C) The 2004 Series A Bond Insurer shall receive immediate notice of any payment default and notice of any other Event of Default known to the Paying Agent or the City within 30 days of the Paying Agent's or the City's knowledge thereof.
- (D) For all purposes of the provisions of this Declaration governing events of default and remedies, except the giving of notice of default to Owners of the 2004 Series A Bonds, the 2004 Series A Bond Insurer shall be deemed to be the sole holder of the 2004 Series



A Bonds it has insured for so long as it has not failed to comply with its payment obligations under the 2004 Series A Bond Insurance Policy.

- (E) The 2004 Series A Bond Insurer shall be included as a party in interest and as a party entitled to (i) notify the City, the Paying Agent, if any, or any applicable receiver of the occurrence of an Event of Default and (ii) request the Paying Agent or receiver to intervene in judicial proceedings that affect the 2004 Series A Bonds or the security therefor. The Paying Agent or receiver shall be required to accept notice of default from the 2004 Series A Bond Insurer.

14.7. Amendments and Supplements. Any amendment or supplement to this Declaration or any other principal financing documents shall be subject to the prior written consent of the 2004 Series A Bond Insurer. Any rating agency rating the 2004 Series A Bonds must receive notice of each amendment and a copy thereof at least 15 days in advance of its execution or adoption. The 2004 Series A Bond Insurer shall be provided with a full transcript of all proceedings relating to the execution of any such amendment or supplement.

14.8. Successor Paying Agents, Etc. No resignation or removal of the Paying Agent shall become effective until a successor has been appointed and has accepted the duties of Paying Agent, as applicable. The 2004 Series A Bond Insurer shall be furnished with written notice of the resignation or removal of the Paying Agent and the appointment of any successor thereto.

14.9. Defeasance Provisions. Only cash, direct non-callable obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, to which direct obligation or guarantee the full faith and credit of the United States of America has been pledged, Refcorp interest strips, CATS, TIGRS, STRPS, or defeased municipal bonds rated AAA by S&P or Aaa by Moody's (or any combination of the foregoing) shall be used to effect defeasance of the 2004 Series A Bonds unless the 2004 Series A Bond Insurer otherwise approves. In the event of an advance refunding, the City shall cause to be delivered a verification report of an independent nationally recognized certified public accountant. If a forward supply contract is employed in connection with the refunding, (i) such verification report shall expressly state that the adequacy of the escrow to accomplish the refunding relies solely on the initial escrowed investments and the maturing principal thereof and interest income thereon and does not assume performance under or compliance with the forward supply contract, and (ii) the applicable escrow agreement shall provide that in the event of any discrepancy or difference between the terms of the forward supply contract and the escrow agreement (or the authorizing document, if no separate escrow agreement is utilized), the terms of the escrow agreement or authorizing document, if applicable, shall be controlling.

14.10. Variable Rate Obligations.

- (A) Any Swap entered into in connection with the issuance or incurrence by the City of variable rate indebtedness secured with the 2004 Series A Bonds shall meet the following guidelines and, for purposes of calculating "Debt Service" and establishing compliance with financial covenants under this Declaration shall be treated as follows:

- (1) Long - Dated Swaps - Term or Weighted Average Maturity of Ten Years or More.
  - (I) The Swap provider must be rated at least A-/A3 or better by Standard & Poor's Ratings Services and Moody's Investors Service (the "Initial Rating Requirement").
  - (II) Assuming satisfaction of the Initial Rating Requirement, and thereafter as long as the long term indebtedness of the Swap provider or the claims paying ability of the Swap provider does not fall below Baa2 or BBB by either Standard & Poor's or Moody's (the "Minimum Rating Requirement"), all interest rate assumptions for purposes of establishing or demonstrating compliance with a financial covenant (*e.g.*, rate covenant, reserve requirement, Parity Indebtedness test, asset transfer test, etc.) may be based upon the synthetic fixed interest rate under the Swap.
  - (III) Failure to maintain a Swap provider holding the Minimum Rating Requirement or, if the City elects, failure to replace any such Swap provider by another Swap provider which holds the Initial Rating Requirement within ten business days, will have the following effects: (1) compliance with any required rate covenant for the preceding Fiscal Year will be based on the actual interest paid on the variable rate indebtedness during such Fiscal Year without regard to the Swap; (2) in the case of any required debt service reserve fund, the amount required to be on deposit therein will be re-calculated based on the formula described in Section 14.10(4) calculated as of the date of original issuance of the variable rate indebtedness and any resulting deficiency will be restored within the same one year restoration period established in the bond documentation for curing 2004 Series A Reserve Subaccount deficiencies; and (3) any "forward-looking" financial covenant based upon "Debt Service", "Annual Debt Service" or "Maximum Annual Debt Service" will be based upon the formula described in Section 14.10(4) calculated as of the date the required calculation is made.
- (2) Limited Tax Backed Issues.

The requirements outlined in subsection (A) above will apply to all limited tax-backed transactions, such as the 2004 Series A Bonds, with the following additional requirements: (i) the term or weighted average maturity of the Swap may not exceed ten years; and (ii) the Swap and the related bond documentation must provide that if the outstanding long term indebtedness or claims-paying ability of the Swap provider falls below the Minimum Rating Requirement by Standard & Poor's or Moody's, respectively, the Swap provider must be replaced within 10 business days (the replacement cost to be paid by the City); provided, however, that if the City delivers a certificate demonstrating and concluding that, assuming the maximum permitted rate of interest under the variable rate

documentation, it is not then in default and will not be in default under any financial covenant, the City may elect the following treatment, in lieu of replacing the Swap provider: (1) any “forward-looking” financial covenant based upon “Annual Debt Service” or “Maximum Annual Debt Service” (primarily the Parity Indebtedness test) will be based on the maximum permitted rate of interest under the variable rate legal documentation, and (2) in the case of the 2004 Series A Reserve Subaccount, the amount required to be on deposit therein will be recalculated based on the formula described in Section 14.10(4) calculated as of the date of original issuance of the variable rate indebtedness and any resulting deficiency will be restored within the same restoration period established in the bond documentation for curing 2004 Series A Reserve Subaccount deficiencies.

- (3) Short Dated Swaps Having Terms or Weighted Average Maturities of Ten Years or Less, Whereupon Bonds Automatically Convert to a Pre-Set Fixed Rate.

The embedded Swap provider must meet the Initial Rating Requirement. With respect to financial covenants, the synthetic fixed rate based on the Swap may be utilized for purposes of demonstrating or establishing compliance with the applicable covenant. Failure to maintain a Swap provider holding the Minimum Rating Requirement during the embedded Swap period will require replacement of the Swap provider within ten business days. Failure to replace will require recalculation of the applicable financial covenants in the manner outlined in 14.10(A)(1)(II) above.

- (4) For purposes of calculating the debt service reserve fund requirement, variable rate indebtedness shall be assumed to bear interest at (A) if interest on the indebtedness is excludable from gross income under the applicable provisions of the Internal Revenue Code, the most recently published Bond Buyer “Revenue Bond Index” (or comparable index if no longer published), or (B) if interest is not so excludable, the interest rate on direct U.S. Treasury Obligations with comparable maturities. For all other purposes, including the Parity Indebtedness test, variable rate indebtedness shall be assumed to bear interest at the maximum permissible rate.

- (B) The issuance of Parity Obligations with Balloon Payments or Variable Rate Obligations will be subject to 2004 Series A Bond Insurer’s prior written approval. Termination payments under any swap should be explicitly subordinate to the payment of principal and interest and regular swap payments on the 2004 Series A Bonds.

14.11. Reporting Requirements. The 2004 Series A Bond Insurer shall be provided with the following:

- (A) Notice of the redemption, other than mandatory sinking fund redemption, of any of the 2004 Series A Bonds, or of any advance refunding of the 2004 Series A Bonds, including the principal amount, maturities and CUSIP numbers thereof;

- (B) Notice of the downgrading by any rating agency of the City's underlying public rating, or the underlying rating on the 2004 Series A Bonds or any Parity Indebtedness, to "non-investment grade";
- (C) Notice if the coverage of debt service on the 2004 Series A Bonds by pledged revenues drops below the debt service coverage percentage applicable to the issuance of additional Parity Indebtedness;
- (D) Notice of any material events pursuant to Rule 15c2-12 under the Securities Exchange Act of 1934, as amended; and
- (E) Such additional information as the 2004 Series A Bond Insurer may reasonably request from time to time.

14.12. Reimbursement of Expenses. The City shall pay or reimburse the 2004 Series A Bond Insurer for any and all charges, fees, costs, and expenses that the 2004 Series A Bond Insurer may reasonably pay or incur in connection with the following: (i) the administration, enforcement, defense, or preservation of any rights or security hereunder or under any other transaction document; (ii) the pursuit of any remedies hereunder, under any other transaction document, or otherwise afforded by law or equity, (iii) any amendment, waiver, or other action with respect to or related to this agreement or any other transaction document whether or not executed or completed; (iv) the violation by the City of any law, rule, or regulation or any judgment, order or decree applicable to it; (v) any advances or payments made by the 2004 Series A Bond Insurer to cure defaults of the City under the transaction documents; or (vi) any litigation or other dispute in connection with this agreement, any other transaction document, or the transactions contemplated hereby or thereby, other than amounts resulting from the failure of the 2004 Series A Bond Insurer to honor its payment obligations under the Policy. The 2004 Series A Bond Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver, or consent proposed in respect of this agreement or any other transaction document. The obligations of the City to the 2004 Series A Bond Insurer shall survive discharge and termination of this agreement.

14.13. Notice Addresses. The notice addresses for the 2004 Series A Bond Insurer and the Fiscal Agent are as follows: 2004 Series A Bond Insurer Insurance Company, 125 Park Avenue, New York, New York 10017, Attention: Risk Management; and U.S. Bank Trust National Association, 100 Wall Street, 19<sup>th</sup> Floor, New York, New York 10005, Attention: Corporate Trust Department.

## **Section 15. Provisions Related to 2004 Series A Reserve Subaccount Policy.**

15.1. The City's repayment of any draws under the 2004 Series A Reserve Subaccount Policy and related reasonable expenses incurred by the 2004 Series A Bond Insurer (together with interest thereon, from the date of such draw or incurrence of such expenses, at a rate equal to the lower of (i) the prime rate of Citibank, N.A., in effect from time to time, plus 2% per annum and (ii) the highest rate permitted by law) shall enjoy the same priority as the obligation to maintain and refill the 2004 Series A Reserve Subaccount. Repayment of draws, expenses and accrued

interest (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 1/12 of the aggregate of Policy Costs related to such draw. If and to the extent that cash has also been deposited in the 2004 Series A Reserve Subaccount, all such cash shall be used (or investments purchased with such cash shall be liquidated and the proceeds applied as required) prior to any drawing under the 2004 Series A Reserve Subaccount Policy, and repayment of any Policy Costs shall be made prior to replenishment of any such cash amounts. If, in addition to the 2004 Series A Reserve Subaccount Policy, any other reserve fund substitute instrument ("Additional 2004 Series A Reserve Subaccount Policy") is provided, drawings under the 2004 Series A Reserve Subaccount Policy and any such Additional 2004 Series A Reserve Subaccount Policy, and repayment of Policy Costs and reimbursement of amounts due under the Additional 2004 Series A Reserve Subaccount Policy, shall be made on a pro rata basis (calculated by reference to the Maximum Amounts available thereunder) after applying all available cash in the 2004 Series A Reserve Subaccount and prior to replenishment of any such cash draws, respectively.

15.2. If the City shall fail to repay any Policy Costs in accordance with the requirements of the immediately preceding paragraph, the 2004 Series A Bond Insurer shall be entitled to exercise any and all remedies available at law or in equity or under this Declaration other than (i) acceleration of the maturity of the Bonds or (ii) remedies which would adversely affect Owners.

15.3. This Declaration shall not be discharged until all Policy Costs owing to the 2004 Series A Bond Insurer shall have been paid in full.

15.4. As security for the City's repayment obligations with respect to the 2004 Series A Reserve Subaccount Policy, to the extent that this Declaration pledges or grants a security interest in any revenues or collateral of the City (or other obligor) as security for the Bonds, the 2004 Series A Bond Insurer shall be granted a security interest in all such revenues and collateral, subordinate only to that of the Owners.

15.5. The Parity Indebtedness test and the rate covenant, if any, in this Declaration shall expressly provide for at least one times coverage of the City's obligations with respect to repayment of Policy Costs then due and owing. Furthermore, no Parity Indebtedness may be issued without the 2004 Series A Bond Insurer's prior written consent if any Policy Costs are past due and owing to the 2004 Series A Bond Insurer.

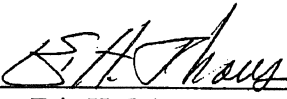
15.6. The Paying Agent shall ascertain the necessity for a claim upon the 2004 Series A Reserve Subaccount Policy and to provide notice to the 2004 Series A Bond Insurer in accordance with the terms of the 2004 Series A Reserve Subaccount Policy at least two Business Days prior to each interest payment date.

15.7. This Declaration shall not be modified or amended without the prior written consent of the 2004 Series A Bond Insurer.

15.8. The 2004 Series A Bond Insurer shall be given written notice of the resignation or removal of the Paying Agent and of the appointment of a successor thereto, at 125 Park Avenue, New York, New York 10017, Attention: Risk Management.

Dated as of this 9<sup>th</sup> day of December, 2004.

City of Portland, Oregon

By:   
Eric H. Johansen, Debt Manager



## Appendix A

### Form of 2004 Series A Bond

No. R-«BondNumber»

\$«PrincipalAmtNumber»

United States of America  
State of Oregon  
Counties of Multnomah, Washington and Clackamas  
**City of Portland**  
Interstate Corridor Urban Renewal and Redevelopment Bonds  
2004 Series A

**Dated Date:** December 9, 2004

**Interest Rate Per Annum:** «CouponRate»%

**Maturity Date:** June 15, «MaturityYear»

**CUSIP Number:** 736746«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 named 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 15<sup>th</sup> day of June and the 15<sup>th</sup> day of December in each year until maturity or prior redemption, commencing June 15, 2005. Payment of each installment of principal or 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, in Portland, Oregon (the "Paying Agent"), as of the close of business on the last day of the calendar month immediately preceding the applicable interest payment date. For so long as this Bond is subject to a book-entry-only system, principal and interest payments shall be paid on each payment date to the nominee of the securities depository for the Bonds. On the date of issuance of this Bond, the securities depository for the 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 Bond is one of a duly authorized series of bonds of the City aggregating \$32,310,000 in principal amount designated as Interstate Corridor Urban Renewal and Redevelopment Bonds, 2004 Series A (the "Bonds"). The Bonds are issued for the purpose of refunding the City's Limited Tax Revenue Bonds, 2002 Series B, which financed urban renewal projects within the Interstate Corridor Urban Renewal Area. The Bonds are authorized by City Ordinance No. 178890 (the "Ordinance"), Oregon Revised Statutes Chapter 457 and a Bond Declaration (the "Declaration") executed by the City's Debt Manager pursuant to the Ordinance. The provisions of the Ordinance and the Declaration are hereby incorporated into this Bond by reference. The Bonds are issued in full and strict accordance and compliance with all of the provisions of the Constitution and Statutes of the State of Oregon and the Charter of the City.

The Bonds constitute valid and legally binding special obligations of the City which are payable solely from the Interstate Corridor Tax Increment Revenues of the Interstate Corridor Urban Renewal Area and the other amounts constituting the Security, as defined and provided in the Declaration.

THIS BOND IS A SPECIAL, LIMITED OBLIGATION OF THE CITY WHICH IS SECURED SOLELY BY AND PAYABLE SOLELY FROM THE INTERSTATE CORRIDOR TAX INCREMENT REVENUES AND OTHER AMOUNTS CONSTITUTING THE "SECURITY" AS DEFINED AND PROVIDED IN THE DECLARATION. THIS BOND

IS NOT A GENERAL OBLIGATION OF THE CITY OR THE COMMISSION, AND IS NOT SECURED BY OR PAYABLE FROM ANY FUNDS OR REVENUES OF THE CITY OR THE COMMISSION EXCEPT THE SECURITY.

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

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

The Bonds shall mature and be subject to redemption as described in the final Official Statement for the Bonds which is dated November 30, 2004.

Unless the book-entry-only system is discontinued, notice of any call for redemption shall be given as required by the Blanket Issuer Letter of Representations to The Depository Trust Company, as referenced in the Declaration. Interest on any Bond or Bonds so called for redemption shall cease on the redemption date designated in the notice. The Paying Agent will notify The Depository Trust Company promptly of any Bonds called for redemption. If the book-entry-only system is discontinued, notice of redemption shall be given by first-class mail, postage prepaid, not less than thirty days nor more than sixty days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the Bond register; however, any failure to give notice shall not invalidate the redemption of the Bonds.

Any exchange or transfer of this Bond must be registered, as provided in the Declaration, upon the Bond register kept for that purpose by the Paying Agent. The exchange or transfer of this 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 Bond or Bonds, of the same maturity and in the same aggregate principal amount, shall be issued to the transferee as provided in the Declaration. The City and the Paying Agent may treat the person in whose name this Bond is registered on the Bond register as its absolute owner for all purposes, as provided in the Declaration.

**This 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 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 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 that the issue of which this 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, has caused this 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 date first above written.



**City of Portland, Oregon**

Vera Katz, Mayor

Gary Blackmer, Auditor



## STATEMENT OF INSURANCE

Financial Guaranty Insurance Company ("Financial Guaranty") has issued a policy containing the following provisions with respect to the City of Portland, Oregon, Interstate Corridor Urban Renewal and Redevelopment Bonds, 2004 Series A (the "Bonds"), such policy being on file at the principal office of U.S. Bank National Association, Portland, Oregon, as paying agent (the "Paying Agent").

Financial Guaranty hereby unconditionally and irrevocably agrees to pay for disbursement to the Bondholders that portion of the principal or accreted value (if applicable) of and interest on the Bonds which is then due for payment and which the issuer of the Bonds (the "Issuer") shall have failed to provide. Due for payment means, with respect to the principal or accreted value (if applicable), the stated maturity date thereof, or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which the payment of principal or accreted value (if applicable) of the Bonds is due by reason of call for redemption (other than mandatory sinking fund redemption), acceleration or other advancement of maturity, and with respect to interest, the stated date for payment of such interest.

Upon receipt of telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or the Paying Agent to Financial Guaranty that the required payment of principal, accreted value or interest (as applicable) has not been made by the Issuer to the Paying Agent, Financial Guaranty on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, or its successor as its agent (the "Fiscal Agent"), sufficient to make the portion of such payment not paid by the Issuer. Upon presentation to the Fiscal Agent of evidence satisfactory to it of the Bondholder's right to receive such payment and any appropriate instruments of assignment required to vest all of such Bondholder's right to such payment in Financial Guaranty, the Fiscal Agent will disburse such amount to the Bondholder.

As used herein the term "Bondholder" means the person other than the Issuer or the borrower(s) of bond proceeds who at the time of nonpayment of a Bond is entitled under the terms of such Bond to payment thereof.

The policy is non-cancellable for any reason.

### **Financial Guaranty Insurance Company**

THIS BOND SHALL NOT BE VALID UNLESS PROPERLY AUTHENTICATED BY THE PAYING AGENT IN THE SPACE INDICATED BELOW.

## CERTIFICATE OF AUTHENTICATION

This Bond is one of a series of \$32,310,000 aggregate principal amount of City of Portland, Interstate Corridor Urban Renewal and Redevelopment Bonds, 2004 Series A issued pursuant to the Declaration described herein.

Date of Authentication: December 9, 2004.

**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 B

### Additional Defeasance Obligations

The following noncallable debt obligations qualify as Defeasance Obligations:

- Senior, unsubordinated Federal Home Loan Mortgage Corp. (FHLMC) Debt Obligations.
- Senior, unsubordinated Federal Home Loan Banks (FHL Banks) Consolidated debt obligations.
- Senior, unsubordinated Federal National Mortgage Association (FNMA) Debt obligations.
- Senior, unsubordinated Farm Credit System consolidated system wide bonds and notes.
- Senior, unsubordinated Resolution Funding Corp. (REFCORP) debt obligations, including strips by the Federal Reserve Bank of New York.
- Financing Corp. (FICO) debt obligations.
- Senior, unsubordinated U.S. Agency for International Development (U.S. A.I.D.) guaranteed notes which mature at least four business days before the appropriate payment date.
- The obligations of any other agency of the United States, or any corporation sponsored by the United States, if those obligations are approved in advance and in writing by the by the issuers of all municipal bond insurance policies that guarantee payment of the defeased Bonds and were issued at the request of the City.

## Appendix C

### Permitted Investments

1. Direct obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America (“U.S. Government Securities”).
2. Direct obligations\* of the following federal agencies which are fully guaranteed by the full faith and credit of the United States of America:
  - (a) Export-Import Bank of the United States – Direct obligations and fully guaranteed certificates of beneficial interest
  - (b) Federal Housing Administration – debentures
  - (c) General Services Administration – participation certificates
  - (d) Government National Mortgage Association (“GNMAs”) – guaranteed mortgage-backed securities and guaranteed participation certificates
  - (e) Small Business Administration – guaranteed participation certificates and guaranteed pool certificates
  - (f) U.S. Department of Housing & Urban Development – local authority bonds
  - (g) U.S. Maritime Administration – guaranteed Title XI financings
  - (h) Washington Metropolitan Area Transit Authority – guaranteed transit bonds
3. Direct obligations\* of the following federal agencies which are not fully guaranteed by the faith and credit of the United States of America:
  - (a) Federal National Mortgage Association (“FNMA”) – senior debt obligations rated Aaa by Moody’s Investors Service (“Moody’s”) and AAA by Standard & Poor’s Ratings Services (“S&P”)
  - (b) Federal Home Loan Mortgage Corporation (“FHLMCs”) – participation certificates and senior debt obligations rated Aaa by Moody’s and AAA by S&P
  - (c) Federal Home Loan Banks – consolidated debt obligations
  - (d) Student Loan Marketing Association – debt obligations
  - (e) Resolution Funding Corporation – debt obligations

---

\* The following are explicitly excluded from the securities enumerated in 2 and 3:

- (i) All derivative obligations, including without limitation inverse floaters, residuals, interest-only, principal-only and range notes;
- (ii) Obligations that have a possibility of returning a zero or negative yield if held to maturity;
- (iii) Obligations that do not have a fixed par value or those whose terms do not promise a fixed dollar amount at maturity or call date; and
- (iv) Collateralized Mortgage-Backed Obligations (“CMOs”).

4. Direct, general obligations of any state of the United States of America or any subdivision or agency thereof whose uninsured and unguaranteed general obligation debt is rated, at the time of purchase, A2 or better by Moody's and A or better by S&P, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose uninsured and unguaranteed general obligation debt is rated, at the time of purchase, A2 or better by Moody's and A or better by S&P.
5. Commercial paper (having original maturities of not more than 270 days) rated, at the time of purchase, P-1 by Moody's and A-1 or better by S&P.
6. Certificates of deposit, savings accounts, deposit accounts or money market deposits in amounts that are continuously and fully insured by the Federal Deposit Insurance Corporation ("FDIC"), including the Bank Insurance Fund and the Savings Association Insurance Fund.
7. Certificates of deposit, deposit accounts, federal funds or bankers' acceptances (in each case having maturities of not more than 365 days following the date of purchase) of any domestic commercial bank or United States branch office of a foreign bank, provided that such bank's short-term certificates of deposit are rated P-1 by Moody's and A-1 or better by S&P (not considering holding company ratings).
8. Investments in money-market funds rated AAAm or AAAm-G by S&P.
9. State-sponsored investment pools rated AA- or better by S&P.
10. Repurchase agreements that meet the following criteria:
  - (a) A master repurchase agreement or specific written repurchase agreement, substantially similar in form and substance to the Public Securities Association or Bond Market Association master repurchase agreement, governs the transaction.
  - (b) Acceptable providers shall consist of (i) registered broker/dealers subject to Securities Investors' Protection Corporation ("SIPC") jurisdiction or commercial banks insured by the FDIC, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed rating of A3/P-1 or better by Moody's and A-/A-1 or better by S&P, or (ii) domestic structured investment companies approved by Financial Guaranty and rated Aaa by Moody's and AAA by S&P.
  - (c) The repurchase agreement shall require termination thereof if the counterparty's ratings are suspended, withdrawn or fall below A3 or P-1 from Moody's, or A- or A-1 from S&P. Within ten (10) days, the counterparty shall repay the principal amount plus any accrued and unpaid interest on the investments.
  - (d) The repurchase agreement shall limit acceptable securities to U.S. Government Securities and to the obligations of GNMA, FNMA or FHLMC described in 2(d), 3(a) and 3(b) above. The fair market value of the securities in relation to the amount of the repurchase obligation, including principal and accrued interest, is equal to a collateral level of at least 104% for U.S. Government Securities and 105% for GNMA's, FNMA's or FHLMC's. The repurchase agreement shall require (i) the Trustee or the Agent to value the collateral securities no less frequently than weekly, (ii) the delivery of additional securities if the fair market value of the

securities is below the required level on any valuation date, and (iii) liquidation of the repurchase securities if any deficiency in the required percentage is not restored within two (2) business days of such valuation.

- (e) The repurchase securities shall be delivered free and clear of any lien to the bond trustee (herein, the “Trustee”) or to an independent third party acting solely as agent (“Agent”) for the Trustee, and such Agent is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the FDIC and which has combined capital, surplus and undivided profits or, if appropriate, a net worth, of not less than \$50 million, and the Trustee shall have received written confirmation from such third party that such third party holds such securities, free and clear of any lien, as agent for the Trustee.
  - (f) A perfected first security interest in the repurchase securities shall be created for the benefit of the Trustee, and the issuer and the Trustee shall receive an opinion of counsel as to the perfection of the security interest in such repurchase securities and any proceeds thereof.
  - (g) The repurchase agreement shall have a term of one year or less, or shall be due on demand.
  - (h) The repurchase agreement shall establish the following as events of default, the occurrence of any of which shall require the immediate liquidation of the repurchase securities, unless Financial Guaranty directs otherwise:
    - (i) insolvency of the broker/dealer or commercial bank serving as the counterparty under the repurchase agreement;
    - (ii) failure by the counterparty to remedy any deficiency in the required collateral level or to satisfy the margin maintenance call under item 10(d) above; or
    - (iii) failure by the counterparty to repurchase the repurchase securities on the specified date for repurchase.
11. Investment agreements (also referred to as guaranteed investment contracts) that meet the following criteria:
- (a) A master agreement or specific written investment agreement governs the transaction.
  - (b) Acceptable providers of uncollateralized investment agreements shall consist of (i) domestic FDIC-insured commercial banks, or U.S. branches of foreign banks, rated at least Aa2 by Moody’s and AA by S&P; (ii) domestic insurance companies rated Aaa by Moody’s and AAA by S&P; and (iii) domestic structured investment companies approved by Financial Guaranty and rated Aaa by Moody’s and AAA by S&P.
  - (c) Acceptable providers of collateralized investment agreements shall consist of (i) registered broker/dealers subject to SIPC jurisdiction, if such broker/dealer has an uninsured, unsecured and unguaranteed rating of A1 or better by Moody’s and A+ or better by S&P; (ii) domestic FDIC-insured commercial banks, or U.S. branches

of foreign banks, rated at least A1 by Moody's and A+ by S&P; (iii) domestic insurance companies rated at least A1 by Moody's and A+ by S&P; and (iv) domestic structured investment companies approved by Financial Guaranty and rated Aaa by Moody's and AAA by S&P. Required collateral levels shall be as set forth in 11(f) below.

- (d) The investment agreement shall provide that if the provider's ratings fall below Aa3 by Moody's or AA- by S&P, the provider shall within ten (10) days either (i) repay the principal amount plus any accrued and interest on the investment; or (ii) deliver Permitted Collateral as provided below.
- (e) The investment agreement must provide for termination thereof if the provider's ratings are suspended, withdrawn or fall below A3 from Moody's or A- from S&P. Within ten (10) days, the provider shall repay the principal amount plus any accrued interest on the agreement, without penalty.
- (f) The investment agreement shall provide for the delivery of collateral described in (i) or (ii) below ("Permitted Collateral") which shall be maintained at the following collateralization levels at each valuation date:
  - (i) U.S. Government Securities at 104% of principal plus accrued interest; or
  - (ii) Obligations of GNMA, FNMA or FHLMC (described in 2(d), 3(a) and 3(b) above) at 105% of principal and accrued interest.
- (g) The investment agreement shall require the Trustee or Agent to determine the market value of the Permitted Collateral not less than weekly and notify the investment agreement provider on the valuation day of any deficiency. Permitted Collateral may be released by the Trustee to the provider only to the extent that there are excess amounts over the required levels. Market value, with respect to collateral, may be determined by any of the following methods:
  - (i) the last quoted "bid" price as shown in Bloomberg, Interactive Data Systems, Inc., The Wall Street Journal or Reuters;
  - (ii) valuation as performed by a nationally recognized pricing service, whereby the valuation method is based on a composite average of various bid prices; or
  - (iii) the lower of two bid prices by nationally recognized dealers. Such dealers or their parent holding companies shall be rated investment grade and shall be market makers in the securities being valued.
- (h) Securities held as Permitted Collateral shall be free and clear of all liens and claims of third parties, held in a separate custodial account and registered in the name of the Trustee or the Agent.
- (i) The provider shall grant the Trustee or the Agent a perfected first security interest in any collateral delivered under an investment agreement. For investment agreements collateralized initially and in connection with the delivery of Permitted Collateral under 11(f) above, the Trustee and Financial Guaranty shall



receive an opinion of counsel as to the perfection of the security interest in the collateral.

- (j) The investment agreement shall provide that moneys invested under the agreement must be payable and putable at par to the Trustee without condition, breakage fee or other penalty, upon not more than two (2) business days' notice, or immediately on demand for any reason for which the funds invested may be withdrawn from the applicable fund or account established under the authorizing document, as well as the following:
  - (i) In the event of a deficiency in the debt service account;
  - (ii) Upon acceleration after an event of default;
  - (iii) Upon refunding of the bonds in whole or in part;
  - (iv) Reduction of the debt service reserve requirement for the bonds; or
  - (v) If a determination is later made by a nationally recognized bond counsel that investments must be yield-restricted.

Notwithstanding the foregoing, the agreement may provide for a breakage fee or other penalty that is payable in arrears and not as a condition of a draw by the Trustee if the issuer's obligation to pay such fee or penalty is subordinate to its obligation to pay debt service on the bonds and to make deposits to the debt service reserve fund.

- (k) The investment agreement shall establish the following as events of default, the occurrence of any of which shall require the immediate liquidation of the investment securities, unless:
  - (i) Failure of the provider or the guarantor (if any) to make a payment when due or to deliver Permitted Collateral of the character, at the times or in the amounts described above;
  - (ii) Insolvency of the provider or the guarantor (if any) under the investment agreement;
  - (iii) Failure by the provider to remedy any deficiency with respect to required Permitted Collateral;
  - (iv) Failure by the provider to make a payment or observe any covenant under the agreement;
  - (v) The guaranty (if any) is terminated, repudiated or challenged; or
  - (vi) Any representation of warranty furnished to the Trustee or the issuer in connection with the agreement is false or misleading.
- (l) The investment agreement must incorporate the following general criteria:
  - (i) "Cure periods" for payment default shall not exceed two (2) business days;
  - (ii) The agreement shall provide that the provider shall remain liable for any deficiency after application of the proceeds of the sale of any collateral,



including costs and expenses incurred by the Trustee or Financial Guaranty;

- (iii) Neither the agreement or guaranty agreement, if applicable, may be assigned (except to a provider that would otherwise be acceptable under these guidelines) or amended without the prior consent of Financial Guaranty;
- (iv) If the investment agreement is for a debt service reserve fund, reinvestments of funds shall be required to bear interest at a rate at least equal to the original contract rate.
- (v) The provider shall be required to immediately notify Financial Guaranty and the Trustee of any event of default or any suspension, withdrawal or downgrade of the provider's ratings;
- (vi) The agreement shall be unconditional and shall expressly disclaim any right of set-off or counterclaim;
- (vii) The agreement shall require the provider to submit information reasonably requested by Financial Guaranty, including balance invested with the provider, type and market value of collateral and other pertinent information.

12. Forward delivery agreements in which the securities delivered mature on or before each interest payment date (for debt service or debt service reserve funds) or draw down date (construction funds) that meet the following criteria:

- (a) A specific written investment agreement governs the transaction.
- (b) Acceptable providers shall be limited to (i) any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated A3/P-1 or better by Moody's and A-/A-1 or better by S&P; (ii) any commercial bank insured by the FDIC, if such bank has an uninsured, unsecured and unguaranteed obligation rated A3/P-1 or better by Moody's and A-/A-1 or better by S&P; and (iii) domestic structured investment companies approved by Financial Guaranty and rated Aaa by Moody's and AAA by S&P.
- (c) The forward delivery agreement shall provide for termination or assignment (to a qualified provider hereunder) of the agreement if the provider's ratings are suspended, withdrawn or fall below A3 or P-1 from Moody's or A- or A-1 from S&P. Within ten (10) days, the provider shall fulfill any obligations it may have with respect to shortfalls in market value. There shall be no breakage fee payable to the provider in such event.
- (d) Permitted securities shall include the investments listed in 1, 2 and 3 above.
- (e) The forward delivery agreement shall include the following provisions:
  - (i) The permitted securities must mature at least one (1) business day before a debt service payment date or scheduled draw. The maturity amount of the

permitted securities must equal or exceed the amount required to be in the applicable fund on the applicable valuation date.

- (ii) The agreement shall include market standard termination provisions, including the right to terminate for the provider's failure to deliver qualifying securities or otherwise to perform under the agreement. There shall be no breakage fee or penalty payable to the provider in such event.
  - (iii) Any breakage fees shall be payable only on debt service payment dates and shall be subordinated to the payment of debt service and debt service reserve fund replenishments.
  - (iv) The provider must submit at closing a bankruptcy opinion to the effect that upon any bankruptcy, insolvency or receivership of the provider, the securities will not be considered to be a part of the provider's estate, and otherwise acceptable to Financial Guaranty.
  - (v) The agreement may not be assigned (except to a provider that would otherwise be acceptable under these guidelines) or amended without the prior written consent of Financial Guaranty.
13. Forward delivery agreements in which the securities delivered mature after the funds may be required but provide for the right of the issuer or the Trustee to put the securities back to the provider under a put, guaranty or other hedging arrangement, only with the prior written consent of Financial Guaranty.
14. Maturity of investments shall be governed by the following:
- (a) Investments of monies (other than reserve funds) shall be in securities and obligations maturing not later than the dates on which such monies will be needed to make payments.
  - (b) Investments shall be considered as maturing on the first date on which they are redeemable without penalty at the option of the holder or the date on which the Trustee may require their repurchase pursuant to repurchase agreements.
  - (c) Investments of monies in reserve funds not payable upon demand shall be restricted to maturities of five years or less.

---

**APPENDIX B**  
**SUPPLEMENTAL BOND DECLARATION**

---



**FIRST SUPPLEMENTAL  
BOND DECLARATION**

**City of Portland, Oregon**

**Interstate Corridor Urban Renewal and Development Bonds**

**2011 SERIES A  
(FEDERALLY TAXABLE)**

**2011 SERIES B  
(TAX-EXEMPT)**

**EXECUTED BY THE DEBT MANAGER OF THE CITY OF PORTLAND, OREGON  
Dated as of the \_\_\_\_ day of \_\_\_\_\_, 2011**

## TABLE OF CONTENTS

Section 1. Findings.....	1
Section 2. Definitions.....	1
Section 3. The 2011 Bonds. ....	3
Section 4. The 2011 Reserve Subaccount.....	10
Section 5. Amendments to Master Declaration .....	13
Exhibit A – Form of Bond	

## **FIRST SUPPLEMENTAL BOND DECLARATION**

THIS FIRST SUPPLEMENTAL BOND DECLARATION is executed as of \_\_\_\_\_, 2011 by the Debt Manager of the City of Portland, Oregon pursuant to the authority granted to the Debt Manager by City Ordinance No. \_\_\_\_\_ adopted \_\_\_\_\_, 2011 to establish the terms under which the City's Interstate Corridor Urban Renewal and Redevelopment Bonds, 2011 Series A and 2011 Series B may be issued as Bonds under the City's Bond Declaration for the Interstate Corridor Urban Renewal Area that is dated as of December 9, 2004.

### **Section 1. Findings.**

The Council finds:

1.1. The City and the Portland Development Commission have formed the Interstate Corridor Urban Renewal Area (the "Area") in compliance with the requirements of Oregon law. The ordinance approving the urban renewal plan was enacted on August 23, 2000, and no petitions were filed with the City or the Portland Development Commission seeking to refer the ordinance creating the plan and the Interstate Corridor Urban Renewal Area to City voters. Ordinance No. \_\_\_\_\_, as amended, established a maximum indebtedness of \$335,000,000 for the Plan. \$\_\_\_\_\_ of that amount remains available prior to issuance of the 2011 Bonds.

1.2. In its Resolution No. \_\_\_\_\_, adopted on \_\_\_\_\_, 2011, the Portland Development Commission has requested the City to issue the 2011 Bonds pursuant to Section 15-106 of the Charter of the City of Portland.

1.3. The Debt Manager of the City has executed the Bond Declaration for the Interstate Corridor Urban Renewal Area, which provides the terms under which the City may issue obligations that are secured by a lien on the tax increment revenues of the Interstate Corridor Urban Renewal Area.

1.4. This First Supplemental Declaration provides the terms under which the City's Interstate Corridor Urban Renewal and Redevelopment Bonds, 2011 Series A and 2011 Series B are issued as Parity Indebtedness under the Bond Declaration for the Interstate Corridor Urban Renewal Area.

### **Section 2. Definitions.**

Capitalized terms used in this First Supplemental Declaration which are not defined in this Section 2 shall have the meanings defined for such terms in the Master Declaration, and capitalized terms listed in this Section 2 shall have the meanings defined for such terms in this Section 2, unless the context clearly requires use of a different meaning.

"2011 Bonds" means the 2011 Series A Bonds and the 2011 Series B Bonds.

"2011 Reserve Credit Facility" means a Reserve Credit Facility (as defined in Section 5.3(C) herein and without regard to whether the Master Declaration is amended as provided in Section 5 herein), in which provider of the Reserve Credit Facility unconditionally agrees to provide the City with funds to be used to pay debt service on 2011 Bonds, in lieu of making withdrawals

from the 2011 Reserve Subaccount. The value of the 2011 Reserve Credit Facility shall be credited to the 2011 Reserve Subaccount.

“2011 Reserve Subaccount Funding Requirement” means an amount equal to the lesser of the Maximum Annual Debt Service on all Outstanding Bonds that are secured by the 2011 Reserve Subaccount or the amount described in the next sentence. If at the time of issuance of a Series of Bonds that are secured by the 2011 Reserve Subaccount, the amounts required to be added to that subaccount to make the balance in that subaccount equal to Maximum Annual Debt Service on all Outstanding Bonds that are secured by that subaccount exceeds the Tax Maximum for the Series of Bonds being issued, then the 2011 Reserve Subaccount Funding Requirement shall mean the 2011 Reserve Subaccount Funding Requirement in effect immediately prior to the issuance of that Series of Bonds, plus the Tax Maximum calculated with respect to that Series of Bonds. On the date of this First Supplemental Declaration the only Bonds that are Outstanding and are secured by the 2011 Reserve Subaccount are the 2011 Bonds, and the 2011 Reserve Subaccount Funding Requirement is equal to \$\_\_\_\_\_, which is the Maximum Annual Debt Service on the 2011 Bonds as of the date of Closing of the 2011 Bonds, with the 2011 Bonds treated as a single Series.

“2011 Reserve Subaccount Valuation Date” means the first Business Day of each Fiscal Year, each date on which amounts are withdrawn from the 2011 Reserve Subaccount, and each Closing date for a Series of Bonds that is secured by the 2011 Reserve Subaccount.

“2011 Reserve Subaccount” means the subaccount in the Reserve Account that secures the 2011 Bonds and is described in Section 4 of this First Supplemental Declaration.

“2011 Series A Bonds” means the City’s Interstate Corridor Urban Renewal and Redevelopment Bonds, 2011 Series A (Federally Taxable) which are described in Section 3.1 of this First Supplemental Declaration.

“2011 Series B Bonds” means the City’s Interstate Corridor Urban Renewal and Redevelopment Bonds, 2011 Series B (Tax-Exempt) which are described in Section 3.2 of this First Supplemental Declaration.

“Area” means the Interstate Corridor Urban Renewal Area which is described in the Plan, as it may be amended from time to time.

“First Supplemental Declaration” means this First Supplemental Bond Declaration dated as of \_\_\_\_\_, 2011, as it may be amended and supplemented in accordance with the terms of the Master Declaration.

“Master Declaration” means the Bond Declaration for the Interstate Corridor Urban Renewal Area dated as of December 9, 2004.

“Record Date” means for the 2011 Bonds is the last business day of the calendar month immediately preceding each 2011 Bond Payment Date.

“Reserve Credit Event” means a Reserve Credit Event as defined in Section 5.3(B) herein and without regard to whether the Master Declaration is amended as provided in Section 5.



“Reserve Credit Facility” means a Reserve Credit Facility as defined in Section 5.3(C) herein and without regard to whether the Master Declaration is amended as provided in Section 5.

“Reserve Credit Facility Rating” means a Reserve Credit Facility Rating as defined in Section 5.3(D) herein and without regard to whether the Master Declaration is amended as provided in Section 5.

“Security” for the 2011 Bonds means (i) the Interstate Corridor Tax Increment Revenues, which are pledged on a parity with all other Bonds; (ii) all amounts credited to the 2011 Reserve Subaccount, which are pledged solely to the 2011 Bonds and any Parity Indebtedness that the City elects to secure with the 2011 Reserve Subaccount; and, (iii) all amounts available under any 2011 Reserve Credit Facilities, which are pledged solely to the 2011 Bonds, and, to the extent permitted by the terms of the 2011 Reserve Credit Facilities, to any Parity Indebtedness that the City elects to secure with the 2011 Reserve Subaccount.

### **Section 3. The 2011 Bonds.**

#### **3.1. The 2011 Series A Bonds**

- (A) The 2011 Series A Bonds shall be dated \_\_\_\_\_, 2011, shall bear interest which is payable on June 15 and December 15 of each year, commencing \_\_\_\_\_, 2011, and shall mature on the following dates in the following principal amounts:

<u>Date</u> <u>(June 15)</u>	<u>Principal</u> <u>Amount (\$)</u>	<u>Interest</u> <u>Rate (%)</u>	<u>CUSIP Number</u> <u>(Base 736746)</u>
---------------------------------	--	------------------------------------	---

- (B) *Par Optional Redemption.* The 2011 Series A Bonds maturing on or after June 15, 20\_\_\_\_ are subject to optional redemption at the election of the City, prior to their respective maturity dates, on any date on or after June 15, 20\_\_\_\_, in whole or in part (and if in part, from the maturities selected by the City and by lot within a maturity in integral multiples of \$5,000), at a redemption price equal to 100 percent of the principal amount thereof, plus accrued but unpaid interest to the date fixed for redemption, from amounts deposited with the Paying Agent by the City and from any other funds available therefor.
- (C) *Make-Whole Optional Redemption.* The 2011 Series A Bonds are subject to optional redemption by the City prior to their stated maturity dates, as a whole or in part (and if in part, from the maturities selected by the City and by lot within a maturity in integral

multiples of \$5,000), on any business day, at the “Make-Whole Redemption Price,” plus accrued and unpaid interest on the 2011 Series A Bonds to be redeemed on the date fixed for redemption. The following definitions shall apply to the terms used in this Section 3.1(B):

- (1) The “Make-Whole Redemption Price” is the greater of (i) 100 percent of the principal amount of the 2011 Series A Bonds to be redeemed and (ii) the sum of the present value of the remaining scheduled payments of principal and interest on the 2011 Series A Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such 2011 Series A Bonds are to be redeemed, discounted to the date on which the 2011 Series A Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the “Treasury Rate” defined below, plus \_\_\_ basis points.
- (2) “Treasury Rate” means, with respect to any redemption date for a 2011 Series A Bond, the rate per annum, expressed as a percentage of the principal amount, equal to the semi-annual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.
- (3) “Comparable Treasury Issue” means the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the 2011 Series A Bond to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the 2011 Series A Bond to be redeemed.
- (4) “Comparable Treasury Price” means, with respect to any redemption date for a 2011 Series A Bond:
  - (A) the most recent yield data for the applicable U.S. Treasury maturity index from the Federal Reserve Statistical Release H.15 Daily Update (or any comparable or successor publication) reported, as of 11:00 a.m. New York City time, on the Valuation Date; or
  - (B) if the yield described in (1) above is not reported as of such time or the yield reported as of such time is not ascertainable, the average of four Reference Treasury Dealer Quotations for that redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all quotations obtained by the Designated Investment Banker.

- (5) “Designated Investment Banker” means one of the Reference Treasury Dealers appointed by the City.
- (6) “Reference Treasury Dealer” means each of four firms, specified by the City from time to time, that are primary United States Government securities dealers in the City of New York (each, a “Primary Treasury Dealer”); provided, that if any of them ceases to be a Primary Treasury Dealer, the State is to substitute another Primary Treasury Dealer.
- (7) “Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date for a 2011 Series A Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the Valuation Date.
- (8) “Valuation Date” means a date that is no earlier than four (4) days prior to the date the redemption notice is to be delivered pursuant to Section 3.3(C)herein. .

(D) The 2011 Series A Bonds shall be Taxable Bonds.

### 3.2. The 2011 Series B Bonds

- (A) The 2011 Series B Bonds shall be dated \_\_\_\_\_, 2011, shall bear interest which is payable on June 15 and December 15 of each year, commencing \_\_\_\_\_, 2011, and shall mature on the following dates in the following principal amounts:

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>CUSIP Number</u>
<u>(June 15)</u>	<u>Amount (\$)</u>	<u>Rate (%)</u>	<u>(Base 736746)</u>

- (B) *Par Optional Redemption.* The 2011 Series B Bonds maturing on or after June 15, 20\_\_\_\_ are subject to optional redemption at the election of the City, prior to their respective maturity dates, on any date on or after June 15, 20\_\_\_\_, in whole or in part (and if in part, from the maturities selected by the City and by lot within a maturity in integral multiples of \$5,000), at a redemption price equal to 100 percent of the principal amount thereof,

plus accrued but unpaid interest to the date fixed for redemption, from amounts deposited with the Paying Agent by the City and from any other funds available therefor.

While the 2011 Series B Bonds are in BEO form, if less than all the outstanding 2011 Series B Bonds of a particular maturity are to be redeemed, DTC will select the particular 2011 Series B Bonds in accordance with its customary practices.

- (C) The 2011 Series B Bonds shall be Tax-Exempt Bonds, and the City covenants not to take any action, or omit to take any action, if the taking or omitting would cause interest on the 2011 Series A Bonds to become includable in gross income under the Code.

### 3.3. Administrative Provisions for the 2011 Bonds.

- (A) Payment of 2011 Bonds. Principal of and interest on the 2011 Bonds shall be payable through the principal office of the Paying Agent. The 2011 Bonds shall be special obligations of the City, and shall be payable solely from the Security. The City hereby irrevocably pledges the Security to pay the Bonds. Pursuant to ORS 287A.310, this pledge shall be valid and binding from the Closing date of the 2011 Bonds. The amounts so pledged and received by the City shall immediately be subject to the lien of these pledges without any physical delivery or further act, and the lien of these pledges shall be superior to all other claims and liens whatsoever.
- (B) Book-Entry System. The 2011 Bonds shall be initially issued as a book-entry only security issue, with no 2011 Bonds being made available to the beneficial owners, in accordance with the applicable Letter of Representations of The Depository Trust Company. Ownership of the 2011 Bonds shall be recorded through entries on the books of banks and broker-dealer participants and correspondents that are related to entries on The Depository Trust Company book-entry-only system. The 2011 Bonds shall be initially issued in the form of separate single fully registered typewritten bonds for each series and maturity of the 2011 Bonds (the “Global Bonds”) in substantially the form attached hereto as Exhibit A. Each Global Bond shall be registered in the name of CEDE & CO. as nominee (the “Nominee”) of The Depository Trust Company (“DTC”) (DTC and any other qualified securities depository designated by the City as a successor to DTC, collectively the “Depository”) as the “Owner,” and such Global Bonds 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 the Depository until early redemption or maturity of the 2011 Bond. The Paying Agent shall remit payment for the maturing principal or redemption price and interest on the 2011 Bonds to the Owner for distribution by the Nominee for the benefit of the beneficial owners (the “Beneficial Owners”) by recorded entry on the books of the Depository participants and correspondents. While the 2011 Bonds are in book-entry-only form, the 2011 Bonds will be available in denominations of \$5,000 and any integral multiple thereof.
  - (1) In the event the Depository determines not to continue to act as securities depository for the 2011 Bonds, or the City determines that the Depository shall no longer so act, then the City will discontinue the book-entry-only 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 book-entry-only system, the 2011 Bonds shall no longer be a book-entry-only issue and the 2011 Bonds shall be printed and delivered and shall be registered as directed by DTC and thereafter shall be registered, transferred and exchanged as provided in Section 3.3(D) herein.

- (2) With respect to 2011 Bonds registered in the registration books maintained by the Paying Agent in the name of the Nominee of the Depository, the City, and the Paying Agent shall have no responsibility or obligation to any participant or correspondent of the Depository 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 the Depository, the Nominee or any participant or correspondent with respect to any ownership interest in the 2011 Bonds;
  - (B) the delivery to any participant or correspondent or any other person, other than an Owner, of any notice with respect to the 2011 Bonds, including any notice of redemption;
  - (C) the selection by the Depository of the beneficial ownership interest in 2011 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 2011 Bonds, of any amount with respect to principal of or interest on the 2011 Bonds.
- (3) Notwithstanding the book-entry-only system, the City may treat and consider the Owner in whose name each 2011 Bond is registered in the registration books maintained by the Paying Agent as the Owner and absolute owner of such 2011 Bond for the purpose of payment of principal and interest with respect to such 2011 Bond, or for the purpose of giving notices of redemption and other matters with respect to such Bond, or for the purpose of registering transfers with respect to such 2011 Bond, or for all other purposes whatsoever. The City shall pay or cause to be paid all principal of and interest on the 2011 Bonds only to or upon the order of the Owner or such Owner's 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.
- (4) Upon delivery by the Depository to the City 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 the Master Declaration shall refer to such new nominee of the Depository, and upon receipt of such notice, the City shall promptly deliver a copy thereof to the Paying Agent. The Depository shall tender the 2011 Bonds it holds to the Paying Agent for re-registration.

(C) Notice of Redemption.

- (1) For any 2011 Bonds which are not in book-entry form, unless waived by the Owner of such a 2011 Bond, official notice of any redemption shall be given by the Paying Agent on behalf of the City by mailing a copy of an official redemption notice by first-class mail at least 20 days and not more than 60 days prior to the date fixed for redemption to the Owner of the 2011 Bond or 2011 Bonds to be redeemed at the address shown on the Bond register or at such other address as is furnished in writing by such Owner to the Paying Agent.
- (2) Unless DTC consents to a shorter period, for any 2011 Bonds which are in book-entry form the Paying Agent shall notify DTC not less than 20 days prior to the date fixed for redemption of the maturity to be redeemed in the manner required in the City's Letter of Representations to DTC. No other notice shall be required.
- (3) In addition to the requirements of Section 3.3(C)(5), all official notices of redemption shall be dated and shall state:
  - (A) the date fixed for redemption,
  - (B) the redemption price,
  - (C) if less than all outstanding 2011 Bonds are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the 2011 Bonds to be redeemed,
  - (D) except for calls described in Section 3.3(C)(5), below, that on the date fixed for redemption the redemption price will become due and payable upon each such 2011 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 2011 Bonds are to be surrendered for payment of the redemption price, which place of payment shall be an office of the Paying Agent.
- (4) Except for calls described in Section 3.3(C)(5), below, official notice of redemption having been given as aforesaid, the 2011 Bonds or portions of 2011 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 shall default in the payment of the redemption price) such 2011 Bonds or portions of 2011 Bonds shall cease to bear interest. Upon surrender of such 2011 Bonds for redemption in accordance with said notice, such 2011 Bonds shall be paid by the Paying Agent at the redemption price. Installments of interest due on or prior to the date fixed for redemption shall be payable as in the Master Declaration provided for payment of interest. Upon surrender for any partial redemption of any 2011 Bond, there shall be prepared for the Owner a new 2011 Bond or 2011 Bonds of the same maturity in the amount of the unpaid principal.

All 2011 Bonds which have been redeemed shall be canceled and destroyed by the Paying Agent and shall not be reissued.

- (5) Conditional Notice. Any notice of optional redemption to the Paying Agent or to the Owners pursuant to this Section 3.3 may state that the optional redemption is conditional upon receipt by the Paying Agent of moneys sufficient to pay the redemption price of such 2011 Bonds or upon the satisfaction of any other condition, and/or that such notice may be rescinded upon the occurrence of any other event, and any conditional notice so given may be rescinded at any time before payment of such redemption price if any such condition so specified is not satisfied or if any such other event occurs. Notice of such rescission or of the failure of any such condition shall be given by the Paying Agent to affected Owners of 2011 Bonds as promptly as practicable upon the failure of such condition or the occurrence of such other event.
  - (6) Upon the payment of the redemption price of the 2011 Bonds being redeemed, each check or other transfer of funds issued for such purpose shall bear the CUSIP number identifying, by issue and maturity, the 2011 Bonds being redeemed with the proceeds of such check or other transfer.
- (D) Authentication, Registration and Transfer. (No Book-Entry). The provisions of this Section 3.3(D) apply only when the 2011 Bonds are not in book-entry form.
- (1) No 2011 Bond shall be entitled to any right or benefit under the Master Declaration unless it shall have been authenticated by an authorized officer of the Paying Agent. The Paying Agent shall authenticate all 2011 Bonds properly surrendered for exchange or transfer pursuant to the Master Declaration.
  - (2) The ownership of all 2011 Bonds shall be entered in the 2011 Bond register maintained by the Paying Agent, and the City and the Paying Agent may treat the person listed as owner in the 2011 Bond register as the owner of the 2011 Bond for all purposes.
  - (3) 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 2011 Bond Owner, as that name and address appear on the 2011 Bond register as of the Record Date. If payment is so mailed, neither the City nor the Paying Agent shall have any further liability to any party for such payment.
  - (4) 2011 Bonds may be exchanged for an equal principal amount of 2011 Bonds of the same series and maturity which are in different authorized denominations, and 2011 Bonds may be transferred to other owners if the 2011 Bond Owner submits the following to the Paying Agent:
    - (A) written instructions for exchange or transfer satisfactory to the Paying Agent, signed by the 2011 Bond Owner or such Owner's

legal representative or attorney in fact and guaranteed or witnessed in a manner satisfactory to the Paying Agent; and

(B) the 2011 Bonds to be exchanged or transferred.

- (5) The Paying Agent shall not be required to exchange or transfer any 2011 Bonds submitted to it during any period beginning with a Record Date and ending on the next following interest payment date; however, such 2011 Bonds shall be exchanged or transferred promptly following the interest payment date.
- (6) The Paying Agent shall not be required to exchange or transfer any 2011 Bonds which have been designated for redemption if such 2011 Bonds are submitted to it during the fifteen-day period preceding the designated date fixed for redemption.
- (7) For purposes of this Section, 2011 Bonds shall be considered submitted to the Paying Agent on the date the Paying Agent actually receives the materials described in Section 3.3(B)(4).
- (8) The City may alter these provisions regarding registration and transfer by mailing notification of the altered provisions to all 2011 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.

#### 3.4. Form, Execution and Authentication.

The 2011 Bonds shall be in substantially the form attached hereto as Appendix A, with such changes as may be approved by the Debt Manager. The 2011 Bonds shall be executed on behalf of the City with the facsimile signatures of the Mayor and City Auditor.

### **Section 4. The 2011 Reserve Subaccount**

#### 4.1. The 2011 Reserve Subaccount and the 2011 Reserve Subaccount Funding Requirement.

- (A) The 2011 Reserve Subaccount is hereby created in the Reserve Account. The 2011 Reserve Subaccount shall secure the 2011 Bonds and any Parity Indebtedness the City subsequently elects to secure with the 2011 Reserve Subaccount. Except as specifically provided in this Section 4.1 amounts credited to the 2011 Reserve Subaccount shall be used only to pay principal, interest and premium on the 2011 Bonds and any other Bonds that are secured by the 2011 Reserve Subaccount, and only if amounts in the Debt Service Account are not sufficient to make those payments. The City hereby irrevocably pledges the amounts that are credited to the 2011 Reserve Subaccount to pay the 2011 Bonds. Pursuant to ORS 287A.310, this pledge shall be valid and binding from the Closing date of the 2011 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.



- (B) At Closing of the 2011 Bonds the City shall deposit into the 2011 Reserve Subaccount an amount equal to the 2011 Reserve Subaccount Funding Requirement. The deposit may be made from amounts available in the Subordinate Indebtedness Account, from 2011 Bond proceeds, or other amounts available to the City, or may be in the form of one or more 2011 Reserve Credit Facilities.
- (C) If, on any Payment Date after the transfer described in Section 4.1 of the Master Declaration, the amounts credited to the Debt Service Account are insufficient to pay all the principal of, premium (if any) and interest due on all 2011 Bonds and any Parity Indebtedness that the City subsequently elects to secure with the 2011 Reserve Subaccount that is due on that Payment Date, the City shall transfer an amount equal to the deficiency from the 2011 Reserve Subaccount to the Debt Service Account and apply the amount so transferred solely to pay such Bonds.
- (D) The City covenants to maintain a balance in the 2011 Reserve Subaccount that is at least equal to the 2011 Reserve Subaccount Funding Requirement, but solely from deposits of Interstate Corridor Tax Increment Revenues pursuant to Section 4.1 of the Master Declaration and the Closing deposit specified in Section 4.1(B). The balance in the 2011 Reserve Subaccount shall be equal to the sum of the following amounts, calculated as of the most recent 2011 Reserve Subaccount Valuation Date: the cash credited to the 2011 Reserve Subaccount; plus the value of Permitted Investments and Reserve Credit Facilities in the 2011 Reserve Subaccount.
- (E) Replenishment of 2011 Reserve Subaccount.
  - (1) If the balance in the 2011 Reserve Subaccount on a 2011 Reserve Subaccount Valuation Date is less than the 2011 Reserve Subaccount Funding Requirement as a result of a withdrawal from the 2011 Reserve Subaccount pursuant to 4.2(C) of the Master Declaration, the City shall begin making transfers of Interstate Corridor Tax Increment Revenues to the 2011 Reserve Subaccount in accordance with Section 4.1 of the Master Declaration.
    - (A) Transfers to the 2011 Reserve Subaccount shall be applied first, to reimburse the providers of any 2011 Reserve Credit Facilities *pro rata* for amounts advanced under those 2011 Reserve Credit Facilities; second, to replenish the balance in the 2011 Reserve Subaccount with cash or Permitted Investments; and third to pay any other amounts owed under a 2011 Reserve Credit Facility (including any interest, fees and penalties associated with any draw under that 2011 Reserve Credit Facility).
    - (B) Transfers under Section 4.1 of the Master Declaration shall commence immediately following each 2011 Reserve Subaccount Valuation Date on which the balance in the 2011 Reserve Subaccount is less than the 2011 Reserve Subaccount Funding Requirement, and shall continue until the balance in the 2011

Reserve Subaccount is equal to the 2011 Reserve Subaccount Funding Requirement.

- (2) If the balance in the 2011 Reserve Subaccount on a 2011 Reserve Subaccount Valuation Date is less than the 2011 Reserve Subaccount Funding Requirement as a result of a Reserve Credit Event, the City shall make consecutive annual transfers pursuant to Section 4.1 of the Master Declaration in an amount equal to at least one-third (1/3) of the deficiency to restore the deficiency that was measured on the 2011 Reserve Subaccount Valuation date that occurred on or after the Reserve Credit Event.
- (F) If the balance in the 2011 Reserve Subaccount on a 2011 Reserve Subaccount Valuation Date is greater than the 2011 Reserve Subaccount Funding Requirement the City may transfer the excess to the Debt Service Account or the Subordinate Indebtedness Fund.
- (G) Moneys in the 2011 Reserve Subaccount may be invested only in Permitted Investments that mature no later than the final maturity date of the Bonds that are secured by the 2011 Reserve Subaccount, or in the City's investment pool. Earnings shall be credited as provided in Section 4.6 of the Master Declaration.
- (H) Permitted Investments in the 2011 Reserve Subaccount shall be valued on each 2011 Reserve Subaccount Valuation Date in the following manner:
  - (1) Demand deposits, deposits in the City's investment pool and the Oregon Short Term Fund and other investments which mature in two years or less after the 2011 Reserve Subaccount Valuation Date shall be valued at their face amount, plus accrued interest;
  - (2) Investments which mature more than two years after the 2011 Reserve Subaccount Valuation Date and for which bid and asked prices are published on a regular basis in the Wall Street Journal (or, if not there, then in the New York Times) shall be valued at the average of their most recently published bid and asked prices;
  - (3) Investments which mature more than two years after the 2011 Reserve Subaccount Valuation Date and for which the bid and asked prices are not published on a regular basis in the Wall Street Journal or the New York Times shall be valued at the average bid price quoted by any two nationally recognized government securities dealers (selected by the City in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service;
  - (4) Certificates of deposit and bankers acceptances which mature more than two years after the 2011 Reserve Subaccount Valuation Date shall be valued at their face amount, plus accrued interest; and

- (5) Any investment which is not specified above and which matures more than two years after the 2011 Reserve Subaccount Valuation Date shall be valued at its fair market value as reasonably estimated by the City.
- (I) Each 2011 Reserve Credit Facility shall be valued on each 2011 Reserve Subaccount Valuation Date as provided in this subsection. A 2011 Reserve Credit Facility shall be valued at the amount available to be drawn under it as long as no Reserve Credit Event has occurred and is continuing for that 2011 Reserve Credit Facility. If a Reserve Credit Event has occurred and is continuing for a 2011 Reserve Credit Facility, the 2011 Reserve Credit Facility shall have no value.
- (J) Withdrawals from the 2011 Reserve Subaccount shall be made in the following order of priority:
  - (1) **First**, from any cash on deposit in the 2011 Reserve Subaccount;
  - (2) **Second**, from the liquidation proceeds of any Permitted Investments on deposit in such 2011 Reserve Subaccount; and
  - (3) **Third**, from moneys drawn or paid pro-rata under any 2011 Reserve Credit Facilities.
- (K) All amounts on deposit in the 2011 Reserve Subaccount may be applied to the final payment (whether at maturity or by prior redemption) of Outstanding Bonds secured by the 2011 Reserve Subaccount. Amounts so applied shall be credited against the amounts the City is required to transfer into the Debt Service Account under Section 4.1 of the Master Declaration.
- (L) Amounts in the 2011 Reserve Subaccount may be transferred into escrow to defease 2011 Bonds, but only if the balance remaining in the 2011 Reserve Subaccount after the transfer is at least equal to the 2011 Reserve Subaccount Funding Requirement for the 2011 Bonds which remain Outstanding after the defeasance.

4.2. The City may issue Parity Indebtedness that is secured by the 2011 Reserve Subaccount even though the amount credited to the 2011 Reserve Subaccount is less than the 2011 Reserve Subaccount Requirement as long as the City has made all deposits required by Section 4.1(E).

## **Section 5. Amendments to Master Declaration**

By purchasing the 2011 Bonds, all Owners of the 2011 Bonds are deemed to have irrevocably consented to the amendments in this Section 5. To put an amendment described in this Section 5 into effect the City must receive consent of the 2004 Series A Bond Insurer while the 2004 Series A Bonds are outstanding and the consent of Owners of not less than fifty-one percent (51%) in aggregate principal amount of all Outstanding, affected Bonds pursuant to Section 8.2 of the Master Declaration. The 2004 Series A Bond Insurer is authorized by Section 10.1(B) of the Master Declaration to consent to amendments on behalf of the Owners of the 2004 Series A Bonds.

5.1. Additions to Section 2. Definitions of Master Declaration Related to Interest Subsidy Bonds.

The following defined terms will be added to Section 2 of the Master Declaration:

- (A) “Adjusted Annual Debt Service” means Annual Debt Service for a Fiscal Year, reduced by: a) the amount of any Federal Interest Subsidy that the City is scheduled to receive for Bond interest in that Fiscal Year; and, b) the amount that is expected to be available in the subaccount of the Reserve Account to pay scheduled debt service on Bonds that are secured by that subaccount during that Fiscal Year.
- (B) “Adjusted Maximum Annual Debt Service” means the largest Adjusted Annual Debt Service that occurs after the date for which the calculation is done. Adjusted Maximum Annual Debt Service shall be calculated for the remainder of the Fiscal Year in which the calculation is made, and for each subsequent Fiscal year in which Outstanding Bonds are scheduled to be paid.
- (C) “Federal Interest Subsidy” means an interest subsidy payment that the City is entitled to receive from the United States for Bonds such as “Build America Bonds.” When calculating Adjusted Maximum Annual Debt Service for any Fiscal Year, the Federal Interest Subsidy shall be determined based on the laws in effect on the date the calculation is made.

5.2. Additional Amendments Related to Interest Subsidy Bonds.

The following existing provisions will be amended. Where only a portion of an existing provision is to be amended, additions are shown in **bold underline** and deletions shown in ~~strikethrough~~.

- (A) The first sentence of the definition of “Security” in Section 2 of the Master Declaration will state:

“Security” for a particular Series of Bonds means the Interstate Corridor Tax Revenues, **any Federal Interest Subsidies**, and any additional amounts that are pledged by the City to pay that particular Series of Bonds.
- (B) Section 4.1 of the Master Declaration will state:

4.1 **(A)** Beginning with Levy Year 2004-2005 and continuing until all Bonds are paid or defeased, the City shall deposit all Divide the Taxes Revenues **and Federal Interest Subsidies** in the Tax Increment Fund, and shall credit each deposit to the following accounts within the Tax Increment Fund in the following order of priority:

  - (A) **(i) Subject to Section 4.1(B)**, to the Debt Service Account, until the Debt Service Account contains an amount sufficient to pay the Annual Debt Service for that Levy Year;

~~(B)~~**(ii)** To the Reserve Account, if the balance in any subaccount of the Reserve Account is then less than its Reserve Funding Requirement, until the balances in all subaccounts of the Reserve Account are equal to their Reserve Funding Requirements; and,

~~(C)~~ **(iii)** To the Subordinate Indebtedness Account, any amounts which remain after the foregoing deposits have been made.

**(B) Whenever Federal Interest Subsidies are received by the City, if the Debt Service Account already contains amounts sufficient to pay the remaining Annual Debt Service for the Levy Year, the City shall nevertheless deposit those Federal Interest Subsidies in the Debt Service Account, but shall release an equal amount of Divide the Taxes Revenues that were previously deposited in the Debt Service Account, and apply the released Divide the Taxes Revenues first, as provided in Section 4.1(A)(ii) and second, as provided in Section 4.1(A)(iii).**

- (C) The term “Adjusted Annual Debt Service” shall be substituted for “Annual Debt Service” in all sections of the Declaration (including this First Supplemental Declaration) except:
- (1) The definition of “Annual Debt Service” and the definition of “Tax Maximum” in Section 2 of the Master Declaration.
  - (2) In Section 4.1(A)(i) of the Master Declaration, as shown in Section 5.2(B) of this First Supplemental Declaration
  - (3) For any provisions of Section 14 of the Master Declaration, which relates to the rights of the 2004 Series A Bond Insurer.
- (D) The term “Adjusted Maximum Annual Debt Service” shall be substituted for “Maximum Annual Debt Service” in all sections of the Declaration (including this First Supplemental Declaration).

### 5.3. Amendments relating to Reserve Credit Facilities.

- (A) The definition of “Credit Facility” will be amended to read as follows:

“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 Bonds, and which is issued or unconditionally guaranteed by an entity whose long-term debt obligations or claims-paying ability (as appropriate) are rated, **at the time the Credit Facility is issued, in** one of the three highest rating categories by a Rating Agency which rated the Bonds secured by the Credit Facility. Under rating systems in effect on the date of this First Supplemental Declaration, a rating in one of the three highest rating categories by a Rating Agency would be a rating of “A” or better.

- (B) The following definition of “Reserve Credit Event” will be added to Section 2 of the Master Declaration as follows:

“Reserve Credit Event” means the occurrence of any of the following: (a) the withdrawal or suspension of all Reserve Credit Facility Ratings for a Reserve Credit Facility; or (b) the downgrading of all Reserve Credit Facility Ratings for a Reserve Credit Facility below investment grade, or the equivalent rating reasonably determined by the City if rating terminology changes after June 2011 (As of June 2011, a rating below investment grade by Moody’s is a rating below Baa3, and a rating below investment grade by S&P is a rating below BBB-); or (c) the City properly tenders a request for funds under a Reserve Credit Facility, and the requested funds are not delivered materially in accordance with the terms of such Reserve Credit Facility.

- (C) The following definition of “Reserve Credit Facility” will be added to Section 2 of the Master Declaration as follows:

“Reserve Credit Facility” means a Credit Facility in which the provider of the Credit Facility unconditionally agrees to provide the City with funds to be used to pay debt service on Bonds in lieu of making withdrawals from a subaccount in the Reserve Account.

- (D) The following definition of “Reserve Credit Facility Rating” will be added to Section 2 of the Master Declaration as follows:

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

- (E) Section 4.4(D) of the Master Declaration will be amended to read as follows:

(D) Replenishment of 2004 Series A Reserve Subaccount.

- (1) If the balance in the 2004 Series A Reserve Subaccount on a 2004 Series A Valuation Date is less than the 2004 Series A Reserve Subaccount Funding Requirement as a result of a withdrawal from the 2004 Series A Reserve Subaccount pursuant to 4.2(C), the City shall begin making transfers of Interstate Corridor Tax Increment Revenues to the 2004 Series A Reserve Subaccount in accordance with Section 4.1 of the Master Declaration

- (I) Transfers to the 2004 Series A Reserve Subaccount shall be applied first, to reimburse the providers of any 2004 Series A Reserve Credit Facilities *pro rata* for amounts advanced under those 2004 Series A Reserve Credit Facilities; second, to replenish the balance in the 2004 Series A Reserve Subaccount with cash or Permitted Investments; and third to pay any other amounts owed under a 2004 Series A Reserve Credit Facility (including any interest, fees and penalties associated with any draw under that 2004 Series A Reserve Credit Facility).

- (II) Transfers under Section 4.1 of the Master Declaration shall commence immediately following each 2004 Series A Valuation Date on which the balance in the 2004 Series A Reserve Subaccount is less than the 2004 Series A Reserve Subaccount Funding Requirement, and shall continue until the balance in the 2004 Series A Reserve Subaccount is equal to the 2004 Series A Reserve Subaccount Funding Requirement.
- (2) If the balance in the 2004 Series A Reserve Subaccount on a 2004 Series A Valuation Date is less than the 2004 Series A Reserve Subaccount Valuation Date Reserve Subaccount Funding Requirement as a result of a Reserve Credit Event, the City shall make consecutive annual transfers pursuant to Section 4.1 of the Master Declaration in an amount equal to at least one-third (1/3) of the deficiency to restore the deficiency that was measured on the 2004 Series A Valuation Date that occurred on or after the Reserve Credit Event.
- (F) Subsections (H), (I) and (J) of Section 4.4 are renumbered as subsections (I), (J) and (K) respectively, and the following new subsection (H) is added to Section 4.4 of the 2004 Declaration:
  - (H) Each 2004 Series A Reserve Credit Facility shall be valued on each 2004 Series A Valuation Date as provided in this subsection. A 2004 Series A Reserve Credit Facility shall be valued at the amount available to be drawn under it as long as no Reserve Credit Event has occurred and is continuing for that 2004 Series A Reserve Credit Facility. If a Reserve Credit Event has occurred and is continuing for a 2004 Series A Reserve Credit Facility, the 2004 Series A Reserve Credit Facility shall have no value.

5.4. Amendments to Section 7. General Covenants of Master Declaration.

- (A) Section 7.9 of the Master Declaration will be deleted and replaced with the following three sections:
  - 7.9. Before the City or the Commission takes formal action to limit the collection of the Divide the Taxes Revenues for a single Fiscal Year under ORS 457.455(1) (or any subsequent statute that allows the City to reduce its collections of Divide the Taxes Revenues for a single Fiscal Year), the Debt Manager shall project the Interstate Corridor Tax Increment Revenues which will be available from the Area after such action is taken. Neither the City nor the Commission shall reduce collections for that Fiscal Year unless the Debt Manager reasonably projects that the reduction will not cause Interstate Corridor Tax Increment Revenues for such Fiscal Year to fall below one hundred ten percent (110.00%) of the Maximum Annual Debt Service on all then Outstanding Bonds (calculated as if all Outstanding Bonds were part of a single Series).
  - 7.10. Before the City or the Commission takes formal action to permanently limit the future collection of the Divide the Taxes Revenues under ORS 457.455(2) (or any

subsequent statute that allows the City to elect to permanently reduce its future collections of Divide the Taxes Revenues), the Debt Manager shall project the Interstate Corridor Tax Increment Revenues which will be available from the Area after such action is taken. Neither the City nor the Commission shall permanently reduce collections unless the Debt Manager reasonably projects that the reduction will not cause Interstate Corridor Tax Increment Revenues to fall below one hundred thirty percent (130.00%) of the Maximum Annual Debt Service on all then Outstanding Bonds (calculated as if all Outstanding Bonds were part of a single Series).

7.11. Before the City or the Commission increases the Maximum Indebtedness for the Area the Debt Manager shall project the Interstate Corridor Tax Increment Revenues which will be available from the Area after the Maximum Indebtedness is increased. Neither the City nor the Commission shall increase the Maximum Indebtedness unless the Debt Manager reasonably projects that increasing the Maximum Indebtedness will not cause Interstate Corridor Tax Increment Revenues to fall below one hundred thirty percent (130.00%) of the Maximum Annual Debt Service on all then Outstanding Bonds (calculated as if all Outstanding Bonds were part of a single Series).

5.5. Amendments to Sections 14 and 15 of the Master Declaration.

The City may amend Section 14 of the Master Declaration (which relates to requirements of the 2004 Series A Bond Insurer) and Section 15 of the Master Declaration (which relates to requirements of the provider of the 2004 Series A Reserve Subaccount Policy) without notice to, or consent of, the Owners of the 2011 Bonds.

Dated as of the \_\_\_\_\_ day of \_\_\_\_\_, 2011.

City of Portland, Oregon

By: \_\_\_\_\_  
B. Jonas Biery, Debt Manager



**EXHIBIT A**  
Form of 2011 Bond

No. R-«BondNumber»

\$«PrincipalAmtNumber»

United States of America  
State of Oregon  
Counties of Multnomah, Washington and Clackamas  
**City of Portland**  
Interstate Corridor Urban Renewal and Redevelopment Bonds  
2011 Series A/B

**Dated Date:** \_\_\_\_\_, 2011  
**Interest Rate Per Annum:** «CouponRate»%  
**Maturity Date:** June 15, «MaturityYear»  
**CUSIP Number:** 736746«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 named 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 15<sup>th</sup> day of June and the 15<sup>th</sup> day of December in each year until maturity or prior redemption, commencing December 15, 2011. Payment of each installment of principal or 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, in Portland, Oregon (the “Paying Agent”), as of the close of business on the last day of the calendar month immediately preceding the applicable interest payment date. For so long as this Bond is subject to a book-entry-only system, principal and interest payments shall be paid on each payment date to the nominee of the securities depository for the Bonds. On the date of issuance of this Bond, the securities depository for the 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 Bond is one of a duly authorized series of bonds of the City aggregating \$\_\_\_\_\_/\_\_\_\_\_ in principal amount designated as Interstate Corridor Urban Renewal and Redevelopment Bonds, 2011 Series A/B (the “Bonds”). The Bonds are issued for the purpose of financing and refinancing urban renewal projects within the Interstate Corridor Urban Renewal Area. The Bonds are authorized by City Ordinance No. \_\_\_\_\_ adopted \_\_\_\_\_ (the “Ordinance”), Oregon Revised Statutes Chapter 457 and a Master Bond Declaration and a First Supplemental Bond Declaration (together, the “Declaration”) executed by the City’s Debt Manager pursuant to the Ordinance. The provisions of the Ordinance and the Declaration are hereby incorporated into this Bond by reference. The Bonds are issued in full and strict accordance and compliance with all of the provisions of the Constitution and Statutes of the State of Oregon and the Charter of the City.

The Bonds constitute valid and legally binding special obligations of the City which are payable solely from the Interstate Corridor Tax Increment Revenues of the Interstate Corridor Urban Renewal Area and the other amounts constituting the Security, as defined and provided in the Declaration.

THIS BOND IS A SPECIAL, LIMITED OBLIGATION OF THE CITY WHICH IS SECURED SOLELY BY AND PAYABLE SOLELY FROM THE INTERSTATE CORRIDOR TAX INCREMENT REVENUES AND OTHER AMOUNTS CONSTITUTING THE “SECURITY” AS DEFINED AND PROVIDED IN THE DECLARATION. THIS BOND IS NOT A GENERAL OBLIGATION OF THE CITY OR THE COMMISSION, AND IS NOT SECURED BY OR PAYABLE FROM ANY FUNDS OR REVENUES OF THE CITY OR THE COMMISSION EXCEPT THE SECURITY.

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

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

The Bonds shall mature and be subject to redemption as described in Section 3 of the First Supplemental Bond Declaration and in the final Official Statement for the Bonds which is dated March 23, 2011.

Unless the book-entry-only system is discontinued, notice of any call for redemption shall be given as required by the Blanket City Letter of Representations to The Depository Trust Company, as referenced in the Declaration. Interest on any Bond or Bonds so called for redemption shall cease on the redemption date designated in the notice. The Paying Agent will notify The Depository Trust Company promptly of any Bonds called for redemption. If the book-entry-only system is discontinued, notice of redemption shall be given by first-class mail, postage prepaid, not less than thirty days nor more than sixty days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the Bond register; however, any failure to give notice shall not invalidate the redemption of the Bonds.

Any exchange or transfer of this Bond must be registered, as provided in the Declaration, upon the Bond register kept for that purpose by the Paying Agent. The exchange or transfer of this 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 Bond or Bonds, of the same maturity and in the same aggregate principal amount, shall be issued to the transferee as provided in the Declaration. The City and the Paying Agent may treat the person in whose name this Bond is registered on the Bond register as its absolute owner for all purposes, as provided in the Declaration.

**This 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 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 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 that the issue of which this 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, has caused this 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 date first above written.



**City of Portland, Oregon**

Sam Adams, Mayor

LaVonne Griffin-Valade, Auditor

THIS BOND SHALL NOT BE VALID UNLESS PROPERLY AUTHENTICATED BY THE  
PAYING AGENT IN THE SPACE INDICATED BELOW.

CERTIFICATE OF AUTHENTICATION

This Bond is one of a series of \$\_\_\_\_\_ aggregate principal amount of City of  
Portland, Interstate Corridor Urban Renewal and Redevelopment Bonds, 2011 Series A/B issued pursuant to the  
Declaration described herein.

Date of Authentication: \_\_\_\_\_, 2011.

**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 C**  
**AUDITED FINANCIAL STATEMENTS**

---



## **INTRODUCTION TO FINANCIAL STATEMENTS**

The financial statements of the City have been audited by independent certified public accountants for the fiscal years 2006, 2007, 2008, 2009, and 2010. Copies of these financial statements containing the reports of the independent certified public accountants are available on the City's website at:

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

The following pages in this Appendix C are excerpted from the Comprehensive Annual Financial Reports of the City for the Fiscal Years ending June 30, 2006 through June 30, 2010.

A CONSENT OF THE INDEPENDENT AUDITOR WAS NOT REQUESTED. THE AUDITOR WAS NOT REQUESTED TO PERFORM AND HAS NOT PERFORMED ANY SERVICE IN CONNECTION WITH THE OFFERING OF THE 2011 BONDS AND IS THEREFORE NOT ASSOCIATED WITH THE OFFERING OF THE 2011 BONDS.





**CITY OF PORTLAND, OREGON**  
**Interstate Corridor Debt Service Fund**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**Generally Accepted Accounting Principles Basis**

	<b>FY 2005-06</b>	<b>FY 2006-07</b>	<b>FY 2007-08</b>	<b>FY 2008-09</b>	<b>FY 2009-10</b>
<b>Revenues</b>					
Taxes	\$4,912,095	\$6,669,479	\$8,779,015	\$9,908,264	\$11,902,980
Investment earnings	69,416	119,519	116,405	83,597	35,667
Total revenues	4,981,511	6,788,998	8,895,420	9,991,861	11,938,647
<b>Expenditures</b>					
Debt Service:					
Principal	3,550,000	4,770,000	7,165,000	8,620,000	1,235,000
Interest	1,423,823	1,743,368	1,737,558	1,517,436	1,424,611
Total expenditures	4,973,823	6,513,368	8,902,558	10,137,436	2,659,611
Revenues over (under) expenditures	7,688	275,630	(7,138)	(145,575)	9,279,036
<b>Other Financing Sources</b>					
Transfers in	--	--	--	--	--
Transfers out	--	--	--	--	(5,300,000)
Total other financing sources (uses)	--	--	--	--	(5,300,000)
Net change in fund balances	7,688	275,630	(7,138)	(145,575)	3,979,036
<b>Fund balances -- beginning</b>	82,282	89,970	365,600	358,462	212,887
<b>Fund balances -- ending</b>	\$89,970	\$365,600	\$358,462	\$212,887	\$4,191,923

Source: City of Portland audited financial statements.

**CITY OF PORTLAND, OREGON**  
**Interstate Corridor Debt Service Fund**  
**CONSECUTIVE BALANCE SHEETS (1)**  
**As of June 30**

	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>ASSETS</b>					
Restricted:					
Cash and investments	\$14,026	\$246,385	\$220,877	\$28,230	\$3,970,825
Receivables:					
Property taxes	237,462	308,140	427,427	610,388	691,878
Accrued interest	8,680	21,704	13,333	18,111	20,152
Total assets	<u>\$260,168</u>	<u>\$576,229</u>	<u>\$661,637</u>	<u>\$656,729</u>	<u>\$4,682,855</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities payable from restricted assets:					
Deferred revenue	\$170,198	\$210,629	\$303,175	\$443,842	\$490,932
Total liabilities	<u>170,198</u>	<u>210,629</u>	<u>303,175</u>	<u>443,842</u>	<u>490,932</u>
Fund balances (deficits):					
Reserved for debt service	89,970	365,600	358,462	--	--
Unreserved	--	--	--	212,887	4,191,923
Total fund balances	<u>89,970</u>	<u>365,600</u>	<u>358,462</u>	<u>212,887</u>	<u>4,191,923</u>
Total liabilities and fund balances	<u>\$260,168</u>	<u>\$576,229</u>	<u>\$661,637</u>	<u>\$656,729</u>	<u>\$4,682,855</u>

Notes:

(1) In years ending June 30, 2006, through June 30, 2008, inclusive, no distinction was made as to whether assets were "restricted" or "unrestricted" or whether liabilities were payable from "restricted" assets or "unrestricted" assets. These designations first appear in the CAFR for FY 2008-09.

Source: City of Portland audited financial statements.

---

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

#### **Budget Process**

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

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

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

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

#### **Office of the City Auditor**

The City has had an elected City Auditor since 1868. The City Auditor is the sixth elected official in the City's government, and is administratively independent from the Mayor and the four City Commissioners. The Office of the City Auditor (the "City Auditor") includes eight divisions, which are responsible for among other things conducting performance audits of City departments and programs, managing City elections and serving as the City Council clerk.

From time to time, the City Auditor conducts performance audits regarding various components of City government. The City Auditor is expected to release a report regarding the City's fiscal sustainability and financial condition (the "Report"). The City Auditor has stated that the Report "is intended to provide financial and demographic information in a popular Report format so it

can be read and understood by a wide audience.” Within the Report, the City Auditor is expected to identify both favorable and unfavorable trends and make various recommendations. The Report is also expected to include a response prepared by the City’s Office of Management and Finance (“OMF”) addressing certain issues in the Report. The information in the Report will not be independently verified by OMF or the City’s outside auditing firm. The City Council is not required to take action or make any changes in response to the recommendations in the Report.

Financial information regarding the City generally can be found in the City’s independently audited Comprehensive Annual Financial Report (CAFR) and the City’s adopted budget, and specific financial information related to the 2011 Bonds, including the Interstate Corridor Tax Increment Revenues and the Area, is presented in this Official Statement. The City Auditor is expected to note within the Report that, “Expressions of opinion in the report are not intended to guide prospective investors in securities offered by the City and no decision to invest in such securities should be made without referencing the City’s audited CAFRs and official disclosure documents relating to a specific security.”

## **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 performed auditing services for FY 2002-03 through FY 2009-10.

A complete copy of the City’s FY 2009-10 audit is available on the City’s web site at <http://www.portlandonline.com/omf/index.cfm?c=54148>. The City’s web site is listed for reference only, and is not part of this Official Statement. See Appendix C, “EXCERPTS OF AUDITED FINANCIAL STATEMENTS,” herein.

## **INSURANCE**

The City is self-insured for workers’ compensation, general liability claims and certain employees’ medical coverage in internal service funds. 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 Division and independent actuarial studies. Liabilities are based on estimated ultimate cost of settling claims, including effects of inflation and other societal and economic factors. Estimated liability is then discounted by the City’s expected rate of return and anticipated timing of cash outlays to determine present value of the liability. For fiscal year ended June 30, 2010, the expected rate of return is 0.75 percent. For fiscal year ending June 30, 2011, the expected rate of return is 0.40 percent. The Bureau of Human Resources and the employee benefits consultant determines relevant employees’ medical coverage estimates.

The City provides insurance coverage deemed as adequate, appropriate, and actuarially sound. It meets all the City’s anticipated settlements, obligations and outstanding liabilities. Furthermore, current levels of accrued claims and retained earnings are viewed as reasonable provisions for expected future losses. An excess liability coverage insurance policy covers individual claims in excess of \$1,000,000 with a \$500,000 sublimit on City Attorney defense costs for the 2010-11 policy year. An excess workers’ compensation coverage insurance policy covers claims in excess of \$750,000. The City purchases commercial insurance for claims in excess of coverage provided by the City’s Workers’ Compensation Self-Insurance Fund and for all other risks of loss. A 2010 proposed settlement of a 2006-07 policy year liability claim has reached the excess liability policy attachment point.

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

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 \$533,300 for causes of action arising on or after July 1, 2010, and before July 1, 2011. 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 \$1,066,700, for causes of action arising on or after July 1, 2010, and before July 1, 2011, and incrementally to \$1,333,300 for causes of action arising on or after July 1, 2014, and before July 1, 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 Senate Bill 311. The adjustment may not exceed three percent for any year.

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

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, 2010, and before July 1, 2011, are as follows: (a) \$100,100 for any single claimant and (b) \$500,600 to all claimants. Beginning in 2010, 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 Senate Bill 311. The adjustment may not exceed three percent for any year.

At the advice of the City's independent actuary and in anticipation of the Oregon legislature raising tort caps as it has done under Senate Bill 311, the City made adjustments to its insurance program. Beginning in FY 2007-08, the City increased its limits of coverage on the excess liability policy from \$10 million to \$30 million per claim above the \$1 million self-insurance retention. The confidence level for the self-insurance reserves in the Insurance & Claims Fund was increased from 60 percent to 70 percent for FY 2007-08, 75 percent for FY 2008-09 and 80 percent for FY 2009-10. An 80 percent confidence level means that there is an 80 percent chance that the self-insurance reserves will be too high and a 20 percent change that the reserves will be too low. No changes are anticipated for FY 2010-11.

## **PENSION PLANS**

### **General**

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

The Tier 1 and Tier 2 pension programs (the "T1/T2 Pension Programs") are defined benefit pension plans that provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and their beneficiaries. Different benefit structures apply to participants depending on their date of hire. Retirement benefits for T1/T2 Pension Program members are based on final average salary and length of service and are calculated under a full formula method, formula plus annuity method, or money match (defined contribution) method if a greater benefit results.

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

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

In September 2008, Mercer Human Resource Consulting ("Mercer"), the PERS actuary, released the City's 2007 actuarial valuation report (the "2007 City Report"), which includes the City's share of the System's actuarial accrued liabilities and assets as of December 31, 2007 and provides the City's employer contribution rates that are currently in effect (effective from July 1, 2009 through June 30, 2011). In October 2010, Mercer released an actuarial valuation for the City as of December 31, 2009 (the "2009 City Report"), which included the City's share of the System's actuarial accrued liability as of December 31, 2009 and provides the City's employer contribution rates for the 2011-2013 biennium.

## Employer Asset Valuation and Liabilities

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

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

The table below is a summary of principal valuation results from the 2007 City Valuation and the 2009 City Report.

**Table D-1**  
**CITY OF PORTLAND, OREGON**  
**Valuation Results for 2007 and 2009**  
**(as of December 31)**

	<b>2007</b>	<b>2009</b>
Allocated Pooled T1/T2 UAL/ (surplus)	(\$221,774,371)	\$178,802,989
Allocated Pooled OPSRP UAL/ (surplus)	(2,425,248)	3,216,137
Net unfunded pension actuarial accrued liability/(surplus)	(\$224,199,619)	\$182,019,126

Source: City of Portland, Oregon Public Employees Retirement System, 12/31/07 Valuation Report prepared by Mercer Human Resource Consulting and City of Portland, Oregon Public Employees Retirement System, 12/31/09 Valuation Report prepared by Mercer Human Resource Consulting.

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

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

## Employer Contribution Rates

Employer contribution rates are based upon the current and projected cost of benefits and the anticipated level of funding available from the OPERF, including known and anticipated investment performance of the OPERF. The City's current employer contribution rates are based on the 2007 City Report. These rates became effective on July 1, 2009 and are effective through June 30, 2011. The 2009 City Report provides employer contribution rates for the 2011-2013 biennium.

In January 2010 the PERS Board adopted a revised implementation of the rate collar limiting increases in employer contribution rates from biennium to biennium (the "Rate Collar"). Under normal conditions, the Rate Collar is the greater of three percent of payroll or 20 percent of the current base rate. If the funded status of the SLGRP is below 80 percent, the Rate Collar increases by 0.3 percent for every percentage point under the 80 percent funded level until it reaches six percent at the 70 percent funded level. The 2009 System Valuation found that the SLGRP was 77 percent funded, resulting in a Rate Collar of 3.9 percent. The Rate Collar limits increases in employer contribution rates before rate reductions from side accounts are deducted, and does not cover charges associated with RHIA and RHIPA. Because the 2011-2013 employer contribution rates were reduced by the Rate Collar, further rate increases are anticipated for the 2013-2015 biennium. Presently, PERS anticipates that system-wide, the 2013-2015 rates will be increased by approximately 5 percent of covered payroll as a result of the implementation of the Rate



Collar in the 2011-2013 biennium. This increase, however, will be subject to change based on the investment performance of OPERF and other factors. The City's actual 2013-2015 contribution rate increase also may vary from the system-wide number.

The table below shows the City's current employer contribution rates and the 2011-2013 rates.

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

	<b>Current Rates</b>			<b>Future Rates</b>		
	<b>2009-2011</b>			<b>2011-2013</b>		
	<b>T1/T2</b>	<b>OPSRP General</b>	<b>OPSRP P&amp;F</b>	<b>T1/T2</b>	<b>OPSRP General</b>	<b>OPSRP P&amp;F</b>
Total net pension contribution rate	4.01%	4.85%	7.56%	8.71%	7.19%	9.90%

Source: City of Portland, Oregon Public Employees Retirement System, 12/31/07 Valuation Report prepared by Mercer Human Resource Consulting and City of Portland, Oregon Public Employees Retirement System, 12/31/09 Valuation Report prepared by Mercer Human Resource Consulting.

Currently, one percent of covered payroll for the three pension benefit programs is approximately: \$1,876,136 for T1/T2 Pension Programs; \$798,072 for OPSRP general services; and \$136,227 for OPSRP police and fire. The City's contribution rates may increase or decrease due to a variety of factors, including the investment performance of the OPERF, the use of reserves, further changes to system valuation methodology and assumptions and decisions by the PERS Board and changes in benefits resulting from legislative modifications.

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

In addition to the City's employer rate, each City bureau is required to make a contribution to pay debt service on approximately \$280.2 million of outstanding Limited Tax Pension Obligation Revenue Bonds originally issued in FY 1999-2000 to fund the City's share of the unfunded actuarial liabilities of PERS as of December 31, 1997.

### **Fire and Police Disability and Retirement Fund**

Most of the fire and police 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. Fire and police personnel generally become eligible for membership in the FPDR Plan immediately upon employment. The FPDR Plan provides for service connected disability benefits at 75 percent of salary, reduced by 50 percent of any wages earned in other employment with a 25 percent of salary minimum, for the first year of disability and 25 to 75 percent of salary in later years, depending on medical status and ability to obtain other employment. The FPDR Plan also provides for non-service connected disability benefits at reduced rates of base pay.

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

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

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

Another ballot measure passed by the voters November 6, 2007 also changed the medical coverage for retirees of the FPDR Fund. The change is effective for retirees after January 1, 2007. Under the ballot measure, the FPDR Fund will pay medical and hospital expenses associated with retired police and firefighters' for job-related injuries and illnesses accepted before retirement. 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 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. 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 2010-11 levy of \$118,526,184 required a tax rate of \$2.6348 per \$1,000 of assessed property value, or approximately \$1.3722 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 July 1, 2010. 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 2023 and an almost 10 percent probability in 2029.

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, 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 July 1, 2010, valuation from 4.50 percent to 4.00 percent. This change increased the unfunded actuarial liability by \$190 million. Overall the unfunded actuarial liability increased from \$2.21 billion on July 1, 2008 to \$2.53 billion on July 1, 2010.

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

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

### **PERS Program**

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

and liabilities is based on the City's proportionate share of the program's pooled covered payroll. According to the 2009 City Report, the City's allocated share of the RHIA program's UAL is \$10,603,769 as of December 31, 2009.

The City's current total contribution rate to fund RHIA benefits for T1/T2 employees is 0.29 percent and for OPSRP general services employees and police and fire employees is 0.19 percent. According to the 2009 City Report, the City's contribution rates for fiscal years 2011-2013 for 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 City's actuary for its OPEB liability associated with the Health Insurance Continuation Option, AON Employee Benefits Consulting, completed an actuarial valuation for purposes of complying with the GASB 45 standards. The valuation was prepared using the Entry Age Normal actuarial cost method by spreading future normal costs evenly over future service ("EAN-Service"). The valuation was prepared using an amortization period of 30 years and an assumed discount rate of five percent. The City's actuarial accrued liability for OPEB is solely attributable to the Health Insurance Continuation Option and at the valuation date of July 1, 2009 (the date of the most recent actuarial valuation), is estimated to be \$104,203,230 on an EAN-Service basis. 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, 2011.

For fiscal year 2010, the annual required contribution (the "ARC") of the employer to be recognized as the annual employer OPEB cost is estimated to be \$10,595,075 on an EAN-Service basis. For fiscal year ended June 30, 2010, the City benefits paid on behalf of retirees exceeded the premiums they paid by \$6,457,534. The City has elected to not pre-fund the fiscal year 2010 employer's annual required contribution to the plan (ARC) of \$10,595,075. The amount unfunded in fiscal year 2010 is \$20,920,813, which is the OPEB obligation from the beginning of the fiscal year, plus the ARC for FY 2009-10, less payments made in relation to the FY 2009-10 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 E**  
**CONSULTANT REPORT —**  
**PROJECTIONS OF DIVIDE THE TAXES REVENUES**

---



# Interstate Corridor Urban Renewal Area

## Divide the Taxes Revenue Projections

Prepared for the Office of Management and  
Finance, City of Portland

**ECONorthwest**  
ECONOMICS • FINANCE • PLANNING

222 SW Columbia Street  
Suite 1600  
Portland, Oregon 97201  
503-222-6060  
[www.econw.com](http://www.econw.com)

Abe Farkas, Nick Popenuk, Lorelei Juntunen

May 2011





# Preface

---

This report is an attachment to the Official Statement of the City of Portland, Oregon prepared in connection with the issuance of urban renewal and redevelopment bonds for the Interstate Corridor Urban Renewal Area (hereafter, the “Area”). ECONorthwest completed this project for the Office of Management and Finance, City of Portland. Abe Farkas was project director. Nick Popenuk was project manager, and conducted most of the research and analysis. Lorelei Juntunen, Whit Perkins, and Rob Wyman provided additional analysis and research assistance. Integra Realty Resources and Communitas LLC were subconsultants on the project, and their contributions are acknowledged throughout the report.

ECONorthwest gratefully acknowledges the substantial assistance provided by staff at Multnomah County Division of Assessment, Recording, and Taxation, and at the City of Portland Office of Management and Finance. Several other firms, agencies, and staff contributed to other research that is relied on in this report.

Despite all the assistance, ECONorthwest alone is responsible for the report's contents. The contents of this document do not necessarily reflect views or policies of the Office of Management and Finance or any public entity or person associated with the project.

# Table of Contents

---

<b>PREFACE</b>	<b>I</b>
<b>TABLE OF CONTENTS</b>	<b>2</b>
<b>SECTION 1 SUMMARY OF RESULTS</b>	<b>3</b>
<b>SECTION 2 BACKGROUND</b>	<b>5</b>
2.1 HOW URBAN RENEWAL WORKS	5
2.2 OVERVIEW: OREGON PROPERTY TAX SYSTEM	7
2.2.1 PROPERTY TAX BALLOT MEASURES	7
2.2.2 MEASURE 5 COMPRESSION	9
2.2.3 PROPERTY TYPES	11
2.3 ASSESSED AND REAL MARKET VALUE TRENDS IN THE INTERSTATE CORRIDOR URBAN RENEWAL AREA	13
<b>SECTION 3 METHODS &amp; ASSUMPTIONS</b>	<b>14</b>
3.1 STEP ONE: CALCULATE THE INCREMENTAL ASSESSED VALUE	14
3.1.1 ASSUMPTIONS FOR REAL MARKET AND ASSESSED VALUE GROWTH	15
3.1.2 INCREMENTAL ASSESSED VALUE PROJECTIONS	27
3.2 STEP TWO: DETERMINE THE CONSOLIDATED TAX RATES	28
3.3 STEP THREE: FORECAST COMPRESSION LOSS	30
<b>SECTION 4 SUMMARY</b>	<b>36</b>
<b>DISCLAIMERS</b>	<b>38</b>

## Summary of results

ECONorthwest conducted a feasibility study to assess the potential of the Interstate Corridor Urban Renewal Area (the “Area”) to collect Divide the Taxes Revenues, which are based on the incremental assessed value of the Area. This analysis forecasts the amount of Divide the Taxes Revenues generated by the Area over the next five fiscal years (beginning in FY 2011-12); results inform the issuance of the Interstate Corridor Urban Renewal and Redevelopment Bonds, 2011 Series A and B by the City of Portland.

The purpose of our analysis is to provide a short-term forecast of future Divide the Taxes Revenues by the Area. At the heart of this analysis is a forecast of future growth in assessed value. We determine our future growth assumptions based on forecasts of real market value trends for specific property types (e.g., single-family residential, commercial, etc.) for the specific Area. For these forecasts of growth in property values, we rely on the expert opinions of our senior staff and market analysis conducted by Integra Realty Resources. Our analysis also includes interviews with property owners, and Portland Development Commission staff to identify known projects that are likely to develop during the five-year period.

Our approach to the analysis is to produce realistic but conservative estimates, based on well-researched assumptions. Because our assumptions are conservative, it is possible that the Area will generate more Divide the Taxes Revenues than we project. The City’s practice is to issue debt secured by Divide the Taxes Revenues using a level debt service amortization schedule that is based only on revenue collections in the year the bonds are issued. The City does not rely on future growth in the Divide the Taxes Revenues to pay debt service. Any increase in the projected Divide the Taxes Revenues would provide an additional cushion to ensure debt service can be paid in the event of unanticipated losses of incremental assessed value, higher delinquencies, or other factors.

In FY 2010-11 the Area was eligible to collect \$13,395,188 in Divide the Taxes Revenues. While we expect limited growth in Divide the Taxes Revenues over the coming five years, we still forecast these revenues in all future years to be higher than FY 2010-11.

Exhibit 1 summarizes the results of our analysis. ECONorthwest projects assessed value in the Area to experience modest growth, from \$1,762,664,846 in FY 2011-12 to \$1,962,353,075 in FY 2015-16, an average annual growth rate of 2.7%. This growth in assessed value leads to

“imposed” Divide the Taxes Revenues (which are net of Measure 5 compression, as will be discussed later in this report) of \$14,657,825 in FY 2011-12, and \$18,610,821 in FY 2015-16, an average annual growth rate of 6.2%.

**Exhibit 1. Interstate Corridor Urban Renewal Area  
Projected Divide the Taxes Revenues  
FY 2011-12 to FY 2015-16**

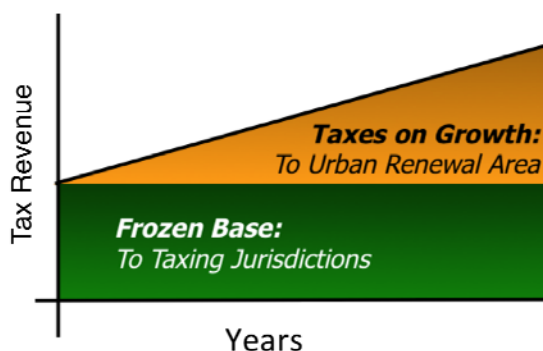
	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
Total Assessed Value	\$ 1,762,664,846	\$ 1,807,250,222	\$ 1,857,584,762	\$ 1,908,431,129	\$ 1,962,353,075
Frozen Base	\$ 1,051,408,349	\$ 1,051,408,349	\$ 1,051,408,349	\$ 1,051,408,349	\$ 1,051,408,349
Incremental Assessed Value	\$ 711,256,497	\$ 755,841,873	\$ 806,176,413	\$ 857,022,780	\$ 910,944,726
Consolidated Tax Rate	\$ 22.2793	\$ 22.3083	\$ 22.2456	\$ 21.7994	\$ 21.7343
Divide the Taxes to Raise	\$ 15,846,297	\$ 16,861,547	\$ 17,933,878	\$ 18,682,582	\$ 19,798,746
Compression Loss	\$ (1,188,472)	\$ (1,264,616)	\$ (1,255,371)	\$ (1,214,368)	\$ (1,187,925)
Compression Loss Percent	-7.5%	-7.5%	-7.0%	-6.5%	-6.0%
<b>Divide the Taxes Imposed</b>	<b>\$ 14,657,825</b>	<b>\$ 15,596,931</b>	<b>\$ 16,678,507</b>	<b>\$ 17,468,214</b>	<b>\$ 18,610,821</b>

Source: ECONorthwest, 2011

## 2.1 HOW URBAN RENEWAL WORKS

Urban renewal is a program used by over 50 cities and counties in Oregon to help them implement adopted plans to revitalize specified areas within their jurisdiction. Urban renewal, through the provision of tax increment financing (TIF), can provide for capital improvements such as parks, streets, parking garages, and transit systems that stimulate private investment and attract new businesses, jobs, and residents. It can also be used to assist with private development activities that are approved in an urban renewal plan, such as financing for affordable housing or mixed-use, transit-oriented development.

**Exhibit 2: Tax Increment Illustration**



Source: ECONorthwest

Tax increment financing is the primary finance vehicle used within urban renewal areas. Divide the Taxes Revenues are generated when a designated urban renewal area is established and the assessed value (AV) of all property in the area is 'frozen' (called the *frozen base*). Over time, the total AV in the area increases above the frozen base, from appreciation of existing property and from new taxable investment. The assessed value in the area above the frozen base is called the *incremental assessed value*.

*Divide the taxes revenues* are the property tax revenues generated within an urban renewal area that are available to an urban renewal agency for reinvestment. *Tax increment financing* refers to the use of divide the tax revenues to finance projects.

The taxing jurisdictions that overlap the urban renewal area continue to collect tax revenue from the frozen base, but tax revenue generated from the incremental assessed value goes to the urban renewal area. The urban renewal area can then issue long-term bonds and other forms of debt (such as lines of credit) to pay for identified public improvements and/or investments in private projects that are in the public

interest. The Divide the Taxes Revenues are used to repay this indebtedness.

In Oregon, planning and analysis associated with the creation of new urban renewal areas is guided by state statute (ORS Chapter 457). State statutes stipulate that urban renewal area plans must find that the proposed urban renewal area is eligible for urban renewal because of existing blight, typified by conditions such as deteriorated buildings, low improvement to land value ratios, and/or lack of adequate infrastructure. The plan must also contain goals and objectives, authorized urban renewal projects, a limit on the total indebtedness, specific provisions regarding acquisition and disposition of land, and provisions regarding how the plan may be amended in the future.

There are currently 11 active urban renewal areas in the City of Portland. The plan areas vary considerably in size and assessed value. Currently, the size of the 11 plan areas totals 14.2% of the total land area of the City and the frozen base value is 10.0% of the assessed value of the City. State statutes specify that no more than 15% of a City's total AV and land area can be in plan areas. Division of tax calculations for these 11 urban renewal areas affect 14 taxing districts.<sup>1</sup>

Oregon state statutes pertaining to urban renewal provide for several different types of urban renewal plans, depending on the date on which the district was formed or amended. The City has three types of urban renewal plans: "Option 3" plans, "standard rate" plans, and "reduced rate" plans.

- Option 3 plans must have been formed or amended prior to December 6, 1996. These urban renewal areas may collect a fixed amount of Divide the Taxes Revenues and may receive an allocation of a City-wide special levy. The Portland City Council has currently set the special levy at \$15 million in total for the City's four Option 3 plans.
- Standard Rate plans must have been formed or amended on or after December 6, 1996 but before October 6, 2001. The Interstate Corridor Urban Renewal Area is a Standard Rate plan. The applicable tax rate used to calculate the Divide the Taxes Revenues is comprised of the permanent rates of the taxing jurisdictions overlapping the urban renewal area, the "local option" levies (e.g., Portland Public Schools, the City's Children's Investment Fund and Multnomah County's

---

<sup>1</sup> Tax Supervising and Conservation Commission Annual Report, 2009-10.

library local option levies), the City's Fire and Police Disability and Retirement Fund ("FPDR") levy, and general obligation bond levies.

- Reduced Rate plans are those formed or amended on or after October 6, 2001. The applicable consolidated tax rate for Reduced Rate Plans is comprised of only the permanent rates of the taxing jurisdictions overlapping the urban renewal areas (excluding a \$0.5038/\$1,000 levy of Portland Public Schools), the City's FPDR levy, and "local option," and general obligation bond levies approved prior to October 6, 2001. Local option and general obligation bond levies approved by the voters on or after October 6, 2001 are excluded from the applicable tax rate.

## 2.2 OVERVIEW: OREGON PROPERTY TAX SYSTEM

---

This section describes past ballot measures that have shaped Oregon's property tax assessment system and impact the calculations of Divide the Taxes Imposed in this report. We also describe the four types of property in the State, and the specific methods for assessing the value of these property types.

### 2.2.1 PROPERTY TAX BALLOT MEASURES<sup>2</sup>

Citizen initiatives have changed the way that property taxes are raised in Oregon, and have limited the growth of assessed value and property tax revenues for taxing jurisdictions. Measure 5, passed in 1990, introduced tax rate limits. Measure 50 passed in 1996, cut taxes, introduced assessed value growth limits, and replaced most dollar-limited *levies* (an amount) with permanent tax *rate limits*.

---

*Real market value* is the sale price for property that changes hands between a willing seller and a willing buyer in the open market.

*Assessed value* is the value of that property for tax purposes. The assessed value is almost always lower than the real market value in Oregon's tax system.

---

Measure 5 introduced limits on the taxes paid by individual properties. It imposed limits of \$5 per \$1,000 of real market value for school taxes and \$10 per \$1,000 of real market value for general government taxes. These limits apply to all property taxes, other than those levied to repay voter-approved general obligation bonds.

The objective of Measure 50 was to reduce property taxes and to control their future growth. To do so, it made three fundamental changes. It:

---

<sup>2</sup> Most of this discussion is based on Appendix B in *Oregon Property Tax Statistics, Fiscal Year 2002-03*, prepared by the Research Section of the Oregon Department of Revenue.

- Switched to permanent property tax rate limits
- Reduced assessed values
- Limited annual growth of assessed value

Under Measure 50, most levies were replaced by permanent limits on tax rates. The permanent rate limit is fixed, and does not change from year to year. Taxes levied under the permanent rate limits, typically referred to as operating taxes, are used primarily to fund the general operating budgets of the taxing districts. In addition to the permanent rate, taxing districts may impose general obligation bond levies and local option levies. The City of Portland also has the ability to levy for its FPDR Plan, which is in addition to its permanent rate. The sum of all the tax rates (including permanent rates, local option levy rates, and rates for bonds and other levies) of all taxing districts in a given levy code area is known as the *consolidated tax rate*.

Measure 50 changed the concepts of “assessed values” and “tax rates.” Assessed value no longer equals real market value (RMV). For 1997-98, a “maximum assessed value” was established for every property by reducing the value to 90% of its 1995-96 real market value. Growth in maximum assessed value for existing properties is limited to 3% per year. Measure 50 also stipulates that assessed value may not exceed real market value. If the real market value of a property falls below its maximum assessed value, the assessed value will be set at the real market value.

New development and substantial redevelopment of existing property are exceptions to the 3% limit on maximum assessed value growth (referred to as “exception value” later in this report).<sup>3</sup> For these exceptions, maximum assessed value is calculated based on a changed property ratio (CPR). Each county calculates CPRs each year for each unique property class (e.g., residential, multi-family, industrial, commercial, etc.). The CPR is determined by the ratio of AV to RMV for similar property in that county.

---

*Exception* property values are not limited by Measure 50's 3% cap on assessed value growth. These include new development and substantial redevelopment, which are assessed as a percentage of the properties' real market value.

---

For new development, the CPR is multiplied by that property's real market value to determine its initial maximum assessed value. For example, if the CPR for residential property in Multnomah County is 0.5, then the maximum assessed value for a new house would initially be set at 50% of its real market value. In all future years, the same Measure 50 limits apply

---

<sup>3</sup> Other exceptions include: partitioning or subdividing a property, rezoning a property and change of use consistent with that zone, and the disqualification or termination of property tax exemptions (e.g., property transferring from public to private ownership).



for calculating change in maximum assessed value (i.e., no more than 3% growth per year).

One important implication of the combination of the CPR and Measure 50 limits to growth of assessed value is that the future stream of revenue from existing properties is relatively stable and straightforward to project. Because maximum assessed value can only grow at 3%, and historically, real market value growth has exceeded 3%, there is room for assessed value to continue to grow, even in a market where real market value growth slows or declines.

## 2.2.2 MEASURE 5 COMPRESSION

Projections of Divide the Taxes Revenues must account for compression, which occurs as a result of the rate limits enacted by Measure 5. These rate limits apply to the *real market value* of properties, rather than to the assessed value. If taxes to be raised on an individual property exceed the Measure 5 limits (\$5 per \$1,000 for education, or \$10 per \$1,000 for general government), then the tax bill for that property is reduced or “compressed.” Compression loss means some properties pay less in taxes than are calculated by the product of the assessed value and consolidated tax rate.

Property owners are taxed on the combined rates of general government, education, and debt service for all overlapping governments that provide services to that property. In most cases, the taxes to be raised from an individual property are calculated as the consolidated tax rate multiplied by the assessed value. When the taxes to be raised using this methodology exceed the Measure 5 limits on real market value, the assessor must reduce the taxes to be raised until they equal the legal limits.

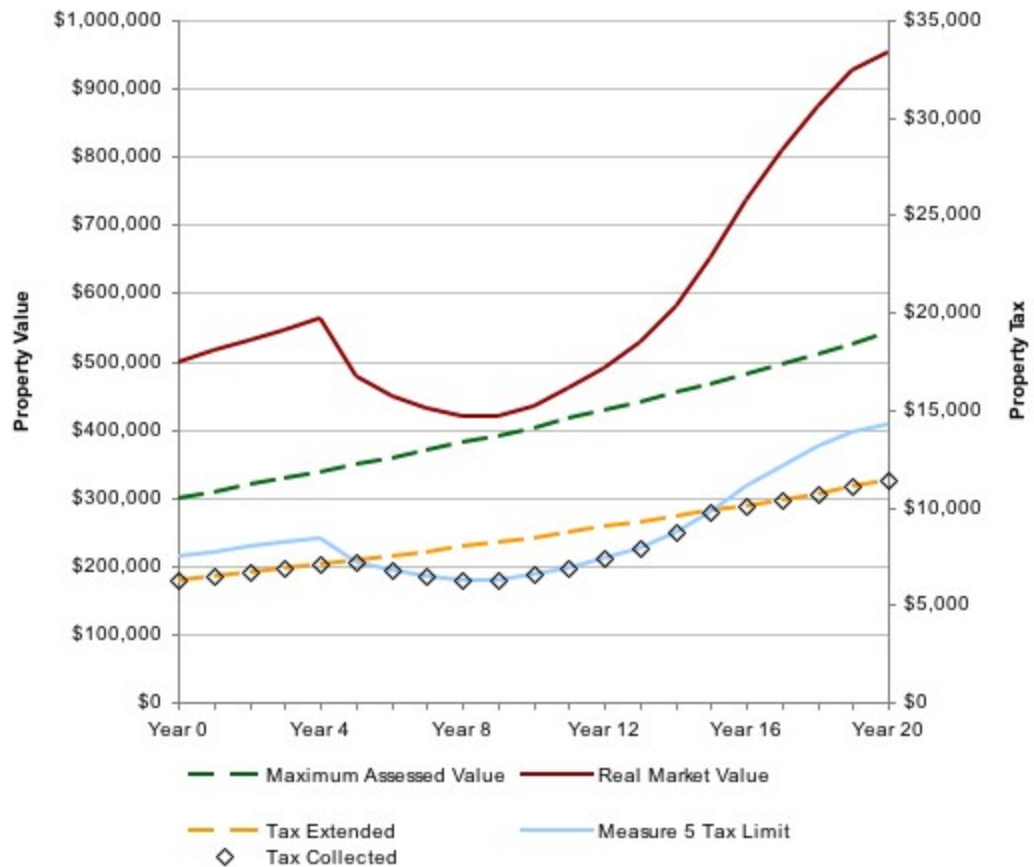
---

The *consolidated tax rate* is the combination of rates for all local option levies, bond levies, and permanent rates. When multiplied by the assessed value of a property, it results in the *taxes to be raised from that property*.

---

Exhibit 3 shows the effects of compression on a hypothetical property. The chart shows the maximum assessed value and real market value changing over time. The maximum assessed value is limited to 3% growth per year, and taxes are extended to the property based on that value and the tax rate. However, when the real market value declines, the Measure 5 tax limit also declines. When the Measure 5 limit drops below the tax extended, then less taxes are collected. The difference in the tax extended and the tax collected is compression loss.

### Exhibit 3. Hypothetical example of Measure 5 compression losses



Source: ECONorthwest

The components of the consolidated tax rate are not all compressed proportionately, but rather by a specific order of operations. Local option levies are compressed first. If all local option levies are reduced to zero, and the taxes still exceed the Measure 5 limits, then the revenues from the permanent tax rates and the FPDR levy are reduced proportionally, until the taxes imposed are within the Measure 5 limits. This protects all districts' permanent rate levies from being reduced if another district passes a local option levy.

At least two factors may cause compression rates to increase. First, because compression is calculated based on real market value, depressed real estate markets may result in more properties experiencing property tax compression.

Second, the passage of new levies can increase the consolidated tax rate. Taxes collected for urban renewal fall within the general government category for computing Measure 5 compression. Because urban renewal levies are assessed taxing-district wide (rather than just within urban

renewal areas), compression that occurs anywhere in a taxing district will affect the amount of urban renewal Divide the Taxes Revenues that can be collected. The reduction in the urban renewal levy on the compressed property will reduce the amount of revenue that the individual property generates for the urban renewal area, causing the total amount of revenue generated for the urban renewal area to be less than would have been anticipated based on the incremental value.

### **2.2.3 PROPERTY TYPES**

In Oregon, taxes are assessed differently on each of four categories of properties: real property, personal property, manufactured homes, and utilities. County assessors appraise most property in Oregon, though the State Department of Revenue appraises certain large industrial sites, and utility properties. The method of assessment used is an important methodological consideration for the projections in this report.

#### **Real property**

Real property generally includes land and all improvements on land that are non-exempt and are not included in the other categories. Real property is taxed on its assessed value. Change in assessed value comes from four sources: (1) appreciation/depreciation of existing property, (2) expiration or imposition of tax abatements (e.g., transferring use or ownership from a public to a private entity), (3) exception value from new development or substantial redevelopment, and (4) a significant change of use in accordance with change in land use designation (e.g. rezoning land from industrial to residential or commercial).

#### **Personal property**

Taxable personal property includes “machinery, equipment, furniture, etc., used previously or presently in a business, including any property not currently being used, placed in storage, or held for sale.”<sup>4</sup> Examples include air conditioning units, retail fixtures, laser equipment, juke boxes, professional printing equipment, computers, and road construction equipment.

Personal property is assessed at 100% of an adjusted market value. The market value is adjusted using an age life methodology, which depreciates the value of the property based on a schedule that is specific to the expected

---

<sup>4</sup> 2008 *Personal Property Valuation Guidelines*, Oregon Department of Revenue, publication 150-303-441. For those interested in a more detailed description of the methodology for assessing personal property, we recommend this document.

life of the property. The value of a computer, for example, is depreciated to \$0 in three years, while the value of a set of tools may depreciate to \$0 in 15 years.

Even though individual items categorized as personal property are constantly depreciating and the taxes collected on it drop correspondingly, on average across all businesses in a jurisdiction, personal property is usually replaced at a rate that maintains or increases its total assessed value relative to the total amount of assessed value from all categories of property taxes.

## **Manufactured homes**

Manufactured homes are assessed separately from other types of real residential properties (including the land that they sit on), but using a similar methodology. A manufactured home's assessed value is the lower of its real market value or its maximum assessed value. For new manufactured homes, the residential CPR is applied in the first assessment year, but the home is not assumed to increase in market value in subsequent years, as is the case with other types of residential development.

Because the real market value of manufactured homes are constantly depreciating, the real market value usually drops below the maximum assessed value at some point in the manufactured home's life, and the tax revenues for these properties decline over time.

The Interstate Corridor Urban Renewal Area contains a very small amount of assessed value for manufactured homes (less than one hundredth of one percent of the total Area assessed value), and we do not anticipate that new manufactured homes will be added to the housing stock in the area.<sup>5</sup> Projections of real market value and assessed value contained in this report hold manufactured property values constant during the five-year forecast period.

## **Utility property**

Utility properties include privately-owned railroads, water transportation, communications, airlines, gas companies, pipelines, private railcars and electric companies. These companies are assessed annually at the State level by the Department of Revenue, as prescribed in ORS 308.505-665. Each utility company files an annual report; the Department of

---

<sup>5</sup> Additionally, the Oregon legislature passed House Bill 3046 in 2010 that exempts manufactured homes with assessed values of less than \$15,000 from paying taxes.

Revenue determines the total value on a unitary basis. The Department then determines the portion of that value that is attributable to Oregon. Of the portion that is in Oregon, the State apportions the assessed value to *code areas*, which equate to taxing districts. Tax rates are applied to the apportioned value to determine the property tax for the company in each taxing district.

## 2.3 ASSESSED AND REAL MARKET VALUE TRENDS IN THE INTERSTATE CORRIDOR URBAN RENEWAL AREA

The Interstate Corridor Urban Renewal Area was established in 2000, and its last date to issue debt is June 2021. Total acreage is 3,804. Its maximum indebtedness is \$335.0 million, of which \$115.38 million was issued through June 1, 2011. The Area's purpose is to revitalize the district in a manner that benefits Area residents and businesses. This includes investment in projects and programs that create community wealth through construction and preservation of housing options, new family-wage jobs, and infrastructure.

### Exhibit 4. Interstate Corridor Urban Renewal Area Assessed value and real market value by property type FY 2006-07 to FY 2010-11

	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
<b>Assessed Value</b>					
Real	\$ 1,263,307,180	\$ 1,341,999,880	\$ 1,425,113,250	\$ 1,513,316,380	\$ 1,586,929,500
Personal	\$ 110,624,099	\$ 114,085,464	\$ 103,524,503	\$ 116,893,686	\$ 100,468,882
Utility	\$ 23,122,500	\$ 24,182,310	\$ 24,690,550	\$ 24,173,200	\$ 31,095,800
Manufactured	\$ 148,760	\$ 147,650	\$ 143,080	\$ 92,690	\$ 69,010
<b>Total</b>	<b>\$ 1,397,202,539</b>	<b>\$ 1,480,415,304</b>	<b>\$ 1,553,471,383</b>	<b>\$ 1,654,475,956</b>	<b>\$ 1,718,563,192</b>
<b>Real Market Value</b>					
Real	\$ 3,481,427,840	\$ 4,059,260,970	\$ 4,529,819,170	\$ 4,630,257,820	\$ 4,597,618,670
Personal	\$ 116,098,846	\$ 114,664,881	\$ 104,011,913	\$ 117,082,189	\$ 101,664,838
Utility	\$ 23,867,317	\$ 24,914,736	\$ 24,690,550	\$ 24,178,368	\$ 31,441,593
Manufactured	\$ 148,760	\$ 147,650	\$ 143,080	\$ 94,130	\$ 90,480
<b>Total</b>	<b>\$ 3,621,542,763</b>	<b>\$ 4,198,988,237</b>	<b>\$ 4,658,664,713</b>	<b>\$ 4,771,612,507</b>	<b>\$ 4,730,815,581</b>

Source: Calculations by ECONorthwest, 2011, based on data provided by the Multnomah County Assessor's Office for FY 2006-07 to FY 2010-11

Real property constitutes over 90% of assessed value in the Area. Every year, the Multnomah County Assessor's Office adjusts the real market value of real property. The Assessor uses a mass appraisal system, as opposed to an appraisal of individual properties. In this mass appraisal system, the Assessor divides real property into three categories: residential, multi-family residential, and commercial, and considers these categories at the neighborhood level. The Assessor's Office relies on market data and

appraisal information on a subset of properties within each neighborhood to identify trends in real market value.

Based on this information, the Assessor's Office makes annual adjustments to real market value for all property of the same use in the same neighborhood. These adjustments are usually uniform for all properties, unless there are extenuating circumstances, or observed trends within different sub-types of properties. This means that even if individual properties are experiencing abnormal growth or decline in real market value, the Assessor will most likely set the real market value based on prevailing neighborhood trends. This system means that it is less likely that individual properties will experience dramatic swings in real market value relative to the property class as a whole.

## Section 3

# Methods, Assumptions, & Projections

There are three steps to calculating the imposed Divide the Taxes Revenues for the Area. This section describes the methods and assumptions used in this report to accomplish these three steps:

1. Calculate the incremental assessed value
2. Determine the consolidated tax rate
3. Forecast compression losses

The overarching methodology is straightforward:

***Incremental AV (step 1) x consolidated tax rate (step 2) – compression losses (step 3) = Divide the Taxes Imposed***

The details, however, add significant complexity. This section provides those details along with the underlying assumptions used in the analysis. It is organized by the three steps of the methodology outlined above.

## 3.1 STEP ONE: CALCULATE THE INCREMENTAL ASSESSED VALUE

To determine the growth in incremental assessed value, we forecast the growth in assessed value for each property type. These forecasts are based on assumptions of future growth rates based on historical trends, and

consideration of current and likely future market conditions. This section describes our assumptions for growth in assessed value, and our calculations of incremental assessed value.

### **3.1.1 ASSUMPTIONS FOR REAL MARKET AND ASSESSED VALUE GROWTH**

We forecast the growth in incremental assessed value for the three property types (real, personal, and utility) present in the Area. These forecasts were based on historical data and market trends. The Multnomah County Assessor's Office provided historical data on the real market value and assessed value of all property accounts within the Area from FY 2006-07 to FY 2010-11.

We forecast growth in both real market value and maximum assessed value for each property account in the Area. The lesser of these values is the assessed value used to calculate Divide the Taxes Revenues. As discussed earlier, maximum assessed value growth is limited by the State Constitution to an increase of 3% per year (not counting exception value).

Exhibit 5 shows the ratio of assessed value to real market value for all property types in the Area. Approximately 82% of properties in the Area have assessed values at less than 70% of their real market values. For these properties, there is a sizable "cushion" between real market values and assessed values that can reduce the impacts of real market value declines on property tax revenues. The assessed value of these properties is more likely to appreciate at the 3% annual rate allowed by the State Constitution.

However, 13% of the property in the Area is assessed at its real market value. The severity of the current downturn in the real estate market means it is very likely that some real property in the Area will experience declines in real market value in the coming years. Additionally, much of the property with high AV/RMV ratios is personal and utility property. Assessed value growth for these property types will be more dependent on trends in real market value. By the end of the forecast period, it is likely that the Area will see a larger percentage of its assessed value in the higher AV/RMV ratio brackets shown in Exhibit 5.



**Exhibit 5. Interstate Corridor Urban Renewal Area  
Assessed Value by AV/RMV ratio tiers, all property types  
FY 2010-11**

AV/RMV Ratio	AV	Percent of Total	Cumulative Percent of Total
0-29%	\$ 199,366,510	12%	12%
30-39%	\$ 265,029,030	15%	27%
40-49%	\$ 594,822,880	35%	62%
50-59%	\$ 265,156,910	15%	77%
60-69%	\$ 86,328,300	5%	82%
70-79%	\$ 47,278,390	3%	85%
80-89%	\$ 17,085,810	1%	86%
90-99%	\$ 21,594,300	1%	87%
100%	\$ 221,901,062	13%	100%
<b>Total</b>	<b>\$ 1,718,563,192</b>	<b>100%</b>	<b>100%</b>

Source: ECONorthwest 2011

Projections of assessed values require assumptions and projections regarding how market trends will vary over time. Exhibit 6 shows historical growth rates for real market value of each property type, and summarizes our assumptions for real market value growth in the future. The text that follows provides a more detailed description of the reason for selecting each assumption, as well as an explanation of factors that influenced historical trends.

**Exhibit 6. Interstate Corridor Urban Renewal Area  
Historical real market value trends and projections for future growth  
FY 2006-07 to FY 2015-16**

Fiscal Year	Property Type			
	Real	Personal	Utility	Manufactured
Actual				
2006-07	13.4%	7.7%	36.8%	-0.9%
2007-08	16.6%	-1.2%	4.4%	-0.7%
2008-09	11.6%	-9.3%	-0.9%	-3.1%
2009-10	2.2%	12.6%	-2.1%	-34.2%
2010-11	-0.7%	-13.2%	30.0%	-3.9%
Projected				
2011-12	-3.9%	0.0%	0.0%	0.0%
2012-13	-3.8%	0.0%	0.0%	0.0%
2013-14	0.3%	0.0%	0.0%	0.0%
2014-15	1.8%	0.0%	0.0%	0.0%
2015-16	2.4%	0.0%	0.0%	0.0%

Source: Calculations by ECONorthwest, 2011, based on data from the Multnomah County Assessors Office, FY 2010-11.

**Methods for forecasting real property assessed values**

In FY 2010-11, real property constituted 92% of total assessed value in the Area. For this property type, we project changes in assessed value that



result from appreciation, as well as exception value from new taxable development.

### *Appreciation of existing property*

Exhibit 7 shows the composition of real property in the Area by use (i.e., residential, commercial, industrial, multi-family, and other). The Area is predominantly made up of single-family property, which constitutes 55% of the total assessed value of real property in the Area and 75% of the Area's parcels.<sup>6</sup>

#### **Exhibit 7. Interstate Corridor Urban Renewal Area Assessed value of real property by use, FY 2010-11**

Land Use	Acreage		Parcels		Assessed Value	
	Acres	Percent	Number	Percent	Dollars	Percent
Industrial	350	14%	383	3%	\$ 224,448,810	14%
Commercial	653	26%	991	8%	\$ 345,058,700	22%
Single-family residential	1,063	42%	9,397	75%	\$ 867,322,040	55%
Multi-family residential	113	4%	267	2%	\$ 80,775,050	5%
Condominium	9	0%	505	4%	\$ 47,969,130	3%
Vacant	373	15%	988	8%	\$ 21,355,770	1%
<b>Total</b>	<b>2,560</b>	<b>100%</b>	<b>12,531</b>	<b>100%</b>	<b>\$ 1,586,929,500</b>	<b>100%</b>

Calculated by ECONorthwest with data from Metro Region Land Information System (RLIS), November 2010.

To determine appreciation of existing property that is already on the tax rolls, we use the lower of the real market value or the maximum assessed value. ECONorthwest worked with Integra Realty Resources to conduct an analysis of the real estate market in the Interstate Corridor to provide a five-year forecast of real market value trends. In addition to our expertise and familiarity with the Area, we relied on the experience of Integra Realty Resources senior appraisers, information gathered from recent appraisals, and commercial databases, and interviews with local brokers, property owners and developers familiar with the Interstate Corridor Urban Renewal Area.

Throughout this section of the report, we describe our assumptions for annual changes in real market value for certain types of property. It is important to remember that there is a two-year lag between changes to the market, and the impact on Divide the Taxes Revenues. For example, a decline in property values in 2010 is recorded by the County Assessor on January 1, 2011, and affects the tax rolls for the 2011-12 fiscal year.

---

<sup>6</sup> Note, the figures in Exhibit 6 are for parcels in the Area, and exclude public rights of way. In other words, these figures omit the acreage of roads, bridges, and freeways in the area.

### *Single-family residential*

The North Portland single-family resident market is best described as “average.” The average selling price of a home in the Portland Metro area is \$260,000, and the average selling price in North Portland was \$200,000.<sup>7</sup> However, the Interstate Corridor URA is somewhat stronger than other parts of North Portland, given the gentrification in key corridors (Alberta, Killingsworth, and Williams streets), and the desirability of the Overlook neighborhood and the area surrounding the Adidas campus.<sup>8</sup>

The Area shares some value and demographic similarities with NE Portland (RMLS Section 142), which has an average sale price of \$261,000. Overall the single-family residential market in the Area is somewhat stronger than the average for North Portland, and not quite as strong as NE Portland.

Overall, North and Northeast Portland have more affordable single-family residential homes in a price range that is the most active at this time. More expensive homes (those selling for more than \$400,000) are selling more slowly in the Portland region. The demand for affordable homes is illustrated by a lower than average total days on market, which was 148 for North Portland, compared to 165 days for the entire metro region.

Price declines in North Portland, again, show the area to be average. Over the past year, North Portland single-family homes have averaged price declines of -5.3%. Seven submarkets tracked by RMLS have done better, and seven submarkets have done worse. Values are declining at a decreasing rate compared to the recent past, however, and we believe that the Area (as well as the overall Portland metropolitan region) is close to the bottom of the market.

We expect the single-family residential market in the Area to remain relatively weak with decreasing values in the short-term. We anticipate declines in value for 2011, with no growth in 2012, and moderate growth of 3% or less, starting in 2013. Long-term, the market should stabilize and keep pace with inflation.<sup>9</sup>

---

<sup>7</sup> Data from RMLS March 2011. North Portland geography defined as RMLS Section 141

<sup>8</sup> Adidas’ (a German shoe and apparel company) North American headquarters are located in Portland in the Interstate Corridor Urban Renewal Area. The facility opened in 2002, and includes five buildings with 320,000 sq. ft. on an 11-acre campus.

<sup>9</sup> Condominiums are a very small portion of the Interstate Corridor Urban Renewal Area, and for the purposes of our analysis, we expect they will experience similar growth to single-family residential properties in the Area.

## *Industrial*

The industrial areas within the Interstate Corridor URA are some of the better quality industrial locations in the Portland metropolitan region. The most significant industrial markets overlapping the Area are the Swan Island/Close-In N/NE, and the NE Columbia Corridor.

The Swan Island District has always had low vacancy rates, due to a very good location that has quality rail and road access (proximate to Interstate 5 and the urbanized core area). The NE Columbia Corridor, just north of the Kenton Neighborhood, near the Expo Center and the Columbia River Slough, has also fared well over the years.

Vacancy in the Swan Island/Close-In N/NE industrial market has been very low over the years, even during the recession. The vacancy rate in the third quarter of 2008 was 1.8%, and is currently 2.4% (after peaking at 2.5% in the fourth quarter of 2009). The NE Columbia Corridor Market has seen vacancy rates between 7.5% and 8.6%, since the third quarter of 2008. The average vacancy rate for industrial property in the Portland metropolitan region is currently 8.2%, so the Area is performing better than average.

Rental rates for industrial property have been relatively stable for both submarkets over the past two years. Rent for the Swan Island/Close-in N/NE submarket is averaging \$0.43/square foot/month, and the NE Columbia Corridor is averaging \$0.47/square foot/month. These rates are stronger than the overall Portland metropolitan average, which has been between \$0.41 and \$0.42/square foot/month.

The popularity of these two submarkets is a direct function of their access to major transportation routes, and the fact that most of the improvements are much older and are priced accordingly. In fact, the predominant industrial supply in the Area generally dates from the 1920s with little new stock since the 1950s.

We forecast that industrial property real market values in the Area will remain stable during 2011, and will increase with inflation starting next year.

## *Multifamily*

The stock of multifamily improvements in the Area is older and in fair to average condition. There has been some infill in the Area over the past decade, but not a material amount, relative to existing total inventory. Much of the recent multifamily residential development has included some affordable housing, requiring public subsidies, and reducing the taxable assessed value.

According to the Metro Multifamily Housing Association, the Area straddles two submarkets: North Portland/St. Johns and Inner and Central NE Portland. Vacancy as of the first quarter of 2011 was 3.6% and 4.0% for these two submarkets, respectively. Average rent per square foot for St. Johns/ North Portland is \$0.93/square foot/month, and \$1.06/square foot/month for Inner and Central NE Portland. Rents in both submarkets have been increasing over the past two months, though not enough to justify new development.

Given the strong performance in apartments throughout the Portland metropolitan region, cap rates in all areas have been falling over the past 18 months. Once rents began to increase and vacancies fell, the decrease in cap rates began to have an impact on values. Median prices have been increasing since the latter half of 2010.

The multifamily market is currently quite strong. We forecast strong performance in multifamily residential going forward, with values increasing 2.5% in 2011, 4% in 2012, and leveling out at 3% growth in later years.

### *Commercial*

Data on the commercial market for this specific area is difficult to come by. The relatively small amount of office space in the Area causes traditional data sources to include the Area as part of a much larger Eastside market. This is such a broad geographic area that it is difficult to get meaningful data. Thus, our assessment of the office/retail market is based more on the combined experience of ECONorthwest and Integra Realty Resources senior staff, and interviews with local property owners and developers, and less on standard other data sources.

Office uses make up little of the entire inventory of commercial property in the Area. It is mostly low-end, Class C space. The Adidas corporate campus is an exception, and is of better quality. The office market segment was likely hit hard by the recession, and we expect it is still declining (though nearing the bottom at this point).

Retail in the Area is bifurcated. Some of the older, neglected, low-value retail spaces along commercial corridors in low-income neighborhoods, have started to give way to trendy, new restaurants and shops. Mississippi Street and Alberta Street are two specific corridors that have transformed in recent years, offering better quality space in better locations. Prior to the recession, rents in these areas were as high as \$25-\$28/square foot/year. Rents declined over the recession, and are in the \$20-\$25/square foot/year range today. The lower-quality retail properties are stable because they did

not experience the rapid increase in rents in the years leading up to the recession, and therefore did not have much room to fall.

We estimate that office space real market values in the Area will decline in 2011 and 2012, stabilizing in 2013, and experience modest growth thereafter. Adidas and government and institutional office properties will perform better than the rest of the Area. Retail may decline in 2011, stabilizing in 2012, and increasing modestly thereafter.

### *Appreciation assumptions*

Exhibit 8 shows our assumptions for growth in real property real market values for FY 2011-12 to FY 2015-16. We expect multifamily residential property to outperform other land uses, and single-family residential and condominiums to struggle the most. Overall, we expect the market to hit bottom in the next year or two, stabilize, and return to slow, but steady growth in the later years.

### **Exhibit 8. Real market value growth assumptions for real property FY 2011-12 to FY 2015-16**

Calendar Year	Fiscal Year	Industrial	Commercial	Single-Family	Multi-family	Condo	Vacant
2010	2011-12	0.0%	-4.5%	-5.5%	2.5%	-5.5%	0.0%
2011	2012-13	0.0%	-3.5%	-6.0%	2.5%	-6.0%	0.0%
2012	2013-14	2.5%	-1.0%	0.0%	4.0%	0.0%	0.0%
2013	2014-15	2.5%	0.0%	2.5%	4.0%	2.5%	0.0%
2014	2015-16	2.5%	2.0%	2.5%	3.0%	2.5%	0.0%

Source: ECONorthwest with input from Integra Realty Resources, 2011.

### *New development and exception value*

We believe the Area is attractive for new development, and there will likely be multiple development projects that occur in the Area over the five-year forecast period. For our analysis, we have focused only on projects that are permitted or currently under development at this time. We worked with the Portland Development Commission ("PDC") to identify these projects.

PDC identified numerous projects in the Area that are in various stages of development. We exclude most of these projects from our analysis for two reasons (1) they will be exempt from property taxation, or (2) the projects are not yet permitted and remain speculative at this time. PDC did, however, identify two taxable projects that are permitted, and highly likely to be completed in the next five years. These projects are summarized below.

## Exhibit 9. Forecast exception value from new development

	River City Kenton	SKK LLC
Development Type	Multifamily	Commercial
Completion Date	2014	2012
First Year on Tax Roll	FY 2015-16	FY 2013-14
Changed Property Ratio	0.5420	0.4549
Real Market Value	\$2,500,000	\$3,000,000
Assessed Value	\$1,355,000	\$1,364,700

Source: PDC

The River City Kenton project is a multi-phase development of multifamily apartments. Phase 1 is complete, with a total real market value of \$3.75 million. Phase 2 is permitted, with a planned completion date of 2014. Phase 2 would add 37 apartment units, with a total real market value of \$2.5 million.

The SKK LLC project is a mixed-use project currently underway. The project will transform a vacant lot into a 20,000 sq. ft. mixed-use development. The project will be predominantly office/creative flexible space, with a restaurant on the ground floor, and a small space for a light industrial tenant in the basement. The estimated completion date for the \$3 million project is 2012.

## Methods for forecasting personal property assessed values

In FY 2010-11, personal property in the Area constitutes 6% of total assessed value in the Area. Personal property ownership in the Area is relatively diverse. No individual business constitutes more than 12% of the total personal property value in the Area. The diversity of personal property ownership helps to protect the Area from dramatic changes in valuation that could result from changes to any one business or industry.

However, the assessed value of personal property within the Area can vary significantly from year to year. For example, from FY 2008-09 to FY 2009-10, personal property value in the Area jumped 13%. The following year, personal property value in the Area declined 14%. These annual changes in assessed value are largely influenced by the actions of the two largest personal property owners in the Area.

Daimler Trucks North America is headquartered in Portland, Oregon, and is the largest owner of personal property in the Area, with \$11.8 million



of personal property assessed value.<sup>10</sup> The company manufactures, sells, and services multiple commercial vehicle brands, including Freightliner, Western Star, and Thomas Built Buses. It is the largest heavy-duty truck manufacturer in North America, and also a producer of medium-duty trucks, diesel engines, and other components.

Exhibit 10 shows Daimler Trucks North America's personal property assessed value in the Area from 2006-07 to FY 2010-11. Over the past five years, Daimler's assessed value for personal property has been characterized by relatively large fluctuations from year to year. These fluctuations appear to be due to significant investment in some years, followed by steep depreciation in subsequent years.

**Exhibit 10. Daimler Trucks North America, personal property assessed value in the Interstate Corridor Urban Renewal Area, FY 2006-07 to FY 2010-11**

Fiscal Year	Assessed Value	Change	Percent Change
2006-07	\$ 19,727,060		
2007-08	\$ 20,604,570	\$ 877,510	4.4%
2008-09	\$ 13,766,601	\$ (6,837,969)	-33.2%
2009-10	\$ 17,342,290	\$ 3,575,689	26.0%
2010-11	\$ 11,849,184	\$ (5,493,106)	-31.7%

Calculated by ECONorthwest with data provided by the Portland Development Commission and Multnomah County Assessor's Office.

Kaiser Foundation Health Plan of the Northwest is the second largest owner of personal property in the Area, with \$10.1 million of personal property assessed value in the Area.<sup>11</sup> This assessed value is likely from medical equipment located at the Kaiser Hospital and associated medical offices and other facilities on North Interstate Blvd. Prior to FY 2010-11, the assessed value for personal property owned by Kaiser in the Area experienced very little change, with an average annual growth rate of 1.2% from FY 2006-07 to FY 2009-10.

In FY 2010-11, however, Kaiser Foundation Health Plan of the Northwest experienced a drop in personal property assessed value of \$5.0 million in the Area, a 33% decline from the previous year. This drop may have been the result of some property being removed from the Area, in addition to general depreciation. Over the long-term, we expect Kaiser's

<sup>10</sup> Prior to 2009-10, Daimler Trucks North America, LLC was known as Freightliner. In 2009-10 all property accounts owned by Freightliner in the Area were deleted by the County Assessor, and new accounts were created under the name Daimler Trucks North America, LLC.

<sup>11</sup> The \$10.1 million total includes \$8.6 million owned by Kaiser Foundation Health Plan of the Northwest and \$1.5 million owned by Kaiser Foundation Hospitals.

personal property to be relatively stable, as it was from FY 2006-07 to FY 2009-10.

When looking at trends over time for broad geographic areas, investment in new equipment is more or less canceled out by depreciation of existing property, resulting in little or no growth. For personal property in the Area we forecast no growth in assessed value over the next five years.

### **Methods for forecasting utility assessed values**

In FY 2010-11, utility property constitutes 2% of total assessed value in the Area. About half of this value is for Portland General Electric, which has \$15,278,000 in assessed value in the Area. Utility values are centrally assessed by the State Department of Revenue (DOR), and do not necessarily reflect broader economic trends. Instead, changes in AV for utility property depend on the specific investment patterns and financial performance of utility companies with property in the Area.

Over the past five years, utility values in the Area have grown erratically, including a 29% increase in FY 2010-11. Most of the increase in the last year resulted from new PacifiCorp property with assessed value of \$6.2 million. Interviews with representatives of PacifiCorp indicate that this one-time jump in assessed value is the result of improved methods for locating distribution mileage that had previously been erroneously allocated to other levy code areas. This is a one-time correction, and should not be viewed as a long-term investment pattern that will continue during the five-year forecast period.

The DOR reported no recent or anticipated actions that would cause future change in assessed value in the near future. For the Area's most valuable utility account, Portland General Electric, DOR reported no open appeals or other issues that would cause a significant change in value in future years. DOR reports that long-term trends for utility value have been stagnant, and this trend should continue in the future. To be conservative, we assumed no change in utility assessed value in future years.<sup>12</sup>

### **3.1.2 PROJECTIONS OF REAL MARKET AND ASSESSED VALUE**

Exhibit 11 presents the forecast of real market value and assessed value by property type. These projections combine the assumptions described in the previous section. Real market value is forecast to decline modestly

---

<sup>12</sup> Communication with Michael Olson, Oregon Department of Revenue, April 2011.



through FY 2012-13, and experiencing moderate growth in subsequent years. Assessed value is projected to increase each year through FY 2015-16.

**Exhibit 11. Forecast growth in assessed value and real market value  
FY 2011-12 to FY 2015-16**

	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
<b>Assessed Value</b>					
Real	\$ 1,631,031,154	\$ 1,675,616,530	\$ 1,725,951,070	\$ 1,776,797,437	\$ 1,830,719,383
Personal	\$ 100,468,882	\$ 100,468,882	\$ 100,468,882	\$ 100,468,882	\$ 100,468,882
Utility	\$ 31,095,800	\$ 31,095,800	\$ 31,095,800	\$ 31,095,800	\$ 31,095,800
Manufactured	\$ 69,010	\$ 69,010	\$ 69,010	\$ 69,010	\$ 69,010
<b>Total</b>	<b>\$ 1,762,664,846</b>	<b>\$ 1,807,250,222</b>	<b>\$ 1,857,584,762</b>	<b>\$ 1,908,431,129</b>	<b>\$ 1,962,353,075</b>
<b>Real Market Value</b>					
Real	\$ 4,416,800,113	\$ 4,249,168,362	\$ 4,263,343,214	\$ 4,338,859,516	\$ 4,441,545,983
Personal	\$ 101,664,838	\$ 101,664,838	\$ 101,664,838	\$ 101,664,838	\$ 101,664,838
Utility	\$ 31,441,593	\$ 31,441,593	\$ 31,441,593	\$ 31,441,593	\$ 31,441,593
Manufactured	\$ 90,480	\$ 90,480	\$ 90,480	\$ 90,480	\$ 90,480
<b>Total</b>	<b>\$ 4,549,997,024</b>	<b>\$ 4,382,365,273</b>	<b>\$ 4,396,540,125</b>	<b>\$ 4,472,056,427</b>	<b>\$ 4,574,742,894</b>

Source: ECONorthwest, 2011

Exhibit 12 shows a more detailed look at changes in assessed value, including a breakdown of assessed value by property type.

**Exhibit 12. Interstate Corridor Urban Renewal Area  
Projected growth in assessed value by property type  
FY 2011-12 to FY 2015-16**

Property Type	Assessed Value				
	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
<b>Real</b>					
Prior year value	\$ 1,586,929,500	\$ 1,631,031,154	\$ 1,675,616,530	\$ 1,725,951,070	\$ 1,776,797,437
Appreciation	\$ 44,101,654	\$ 44,585,376	\$ 48,969,840	\$ 50,846,367	\$ 52,566,946
Percent	2.8%	2.7%	2.9%	2.9%	3.0%
Exception	\$ -	\$ -	\$ 1,364,700	\$ -	\$ 1,355,000
Ending value	\$ 1,631,031,154	\$ 1,675,616,530	\$ 1,725,951,070	\$ 1,776,797,437	\$ 1,830,719,383
<b>Personal</b>					
Prior year value	\$ 100,468,882	\$ 100,468,882	\$ 100,468,882	\$ 100,468,882	\$ 100,468,882
Appreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Percent	0.0%	0.0%	0.0%	0.0%	0.0%
Exception	\$ -	\$ -	\$ -	\$ -	\$ -
Ending value	\$ 100,468,882	\$ 100,468,882	\$ 100,468,882	\$ 100,468,882	\$ 100,468,882
<b>Utility</b>					
Prior year value	\$ 31,095,800	\$ 31,095,800	\$ 31,095,800	\$ 31,095,800	\$ 31,095,800
Appreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Percent	0.0%	0.0%	0.0%	0.0%	0.0%
Exception	\$ -	\$ -	\$ -	\$ -	\$ -
Ending Value	\$ 31,095,800	\$ 31,095,800	\$ 31,095,800	\$ 31,095,800	\$ 31,095,800
<b>Manufactured</b>					
Prior year value	\$ 69,010	\$ 69,010	\$ 69,010	\$ 69,010	\$ 69,010
Appreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Percent	0.0%	0.0%	0.0%	0.0%	0.0%
Exception	\$ -	\$ -	\$ -	\$ -	\$ -
Ending Value	\$ 69,010	\$ 69,010	\$ 69,010	\$ 69,010	\$ 69,010
<b>Total Value</b>	<b>\$ 1,762,664,846</b>	<b>\$ 1,807,250,222</b>	<b>\$ 1,857,584,762</b>	<b>\$ 1,908,431,129</b>	<b>\$ 1,962,353,075</b>
Total Change	\$ 44,101,654	\$ 44,585,376	\$ 50,334,540	\$ 50,846,367	\$ 53,921,946
Percent Change	2.6%	2.5%	2.8%	2.7%	2.8%

Source: ECONorthwest 2011.

Exhibit 13 forecasts the impact of future trends on the distribution of all property in the Area by AV/RMV ratio by the end of the forecast period. The forecast distribution of property in FY 2015-16 looks very similar to the current distribution shown in Exhibit 5. In both years, thirteen percent of real property will have a ratio of 100%, meaning the properties' real market values have dropped below the maximum assessed value, and is limiting annual growth in assessed value to less than 3% per year. Compared to Exhibit 5, a larger share of property has higher AV/RMV ratios, but the vast majority of properties still have maximum assessed values that are less than their real market values. Indeed, we forecast 83% of property will have AV/RMV ratios below 80% in FY 2015-16, compared with 85% of property in FY 2010-11.

**Exhibit 13. Interstate Corridor Urban Renewal Area  
Assessed Value by AV/RMV Ratio, FY 2015-16**

AV/RMV Ratio	Assessed Value	Percent of Total	Cumulative Percent of Total
0-29%	\$ 131,164,149	7%	7%
30-39%	\$ 146,301,195	7%	14%
40-49%	\$ 304,116,146	15%	30%
50-59%	\$ 668,015,772	34%	64%
60-69%	\$ 258,477,431	13%	77%
70-79%	\$ 121,248,042	6%	83%
80-89%	\$ 37,949,132	2%	85%
90-99%	\$ 31,456,513	2%	87%
100%	\$ 263,624,695	13%	100%
<b>Total</b>	<b>\$ 1,962,353,075</b>	<b>100%</b>	<b>100%</b>

Source: ECONorthwest, 2011

### 3.1.3 INCREMENTAL ASSESSED VALUE PROJECTIONS

To calculate the incremental assessed value, we begin with data on all property in the Area. Then we forecast future growth in assessed value, using the growth rate assumptions for each property type (outlined in the previous section). Growth in assessed value is shown in Exhibit 10 above.

We subtract the frozen base value from the total assessed value to determine the incremental assessed value for each year. Exhibit 14 shows projected assessed value and incremental value from FY 2011-12 to FY 2015-16.

**Exhibit 14. Interstate Corridor Urban Renewal Area  
Projected growth in assessed value and incremental assessed value  
FY 2011-12 to FY 2015-16**

Fiscal Year	Total Assessed Value	Frozen Base	Incremental Assessed Value
2011-12	\$ 1,762,664,846	\$ 1,051,408,349	\$ 711,256,497
2012-13	\$ 1,807,250,222	\$ 1,051,408,349	\$ 755,841,873
2013-14	\$ 1,857,584,762	\$ 1,051,408,349	\$ 806,176,413
2014-15	\$ 1,908,431,129	\$ 1,051,408,349	\$ 857,022,780
2015-16	\$ 1,962,353,075	\$ 1,051,408,349	\$ 910,944,726

Source: ECONorthwest, 2011

Once the incremental assessed value is projected, we can estimate the amount of "Divide the Taxes to Raise," which is calculated by multiplying the incremental assessed value by the consolidated tax rate for the Area. The next step, therefore, is to project the annual consolidated tax rate.

## 3.2 STEP TWO: DETERMINE THE CONSOLIDATED TAX RATES

---

The Interstate Corridor Urban Renewal Area is entirely within levy code area 710. The sum of all the tax rates (including permanent rates, and local option levy rates, and rates for bonds and other levies) of all taxing districts in a given levy code area is known as the *consolidated tax rate*.

The Area is a Standard Rate plan, meaning that it calculates Divide the Taxes Revenues from the sum of the tax rates of all permanent tax rates, the FPDR levy, and all local option levies and general obligation bond levies. Note that the consolidated tax rate used to calculate Divide the Taxes Revenues for urban renewal does not include the rate for the urban renewal special levy that certain of the City's urban renewal areas (not including the Area) are authorized to receive. In FY 2010-11, the urban renewal special levy rate was \$0.3009/\$1,000 of AV.

Exhibit 15 shows the FY 2010-11 consolidated tax rates for the Area, as well as projected future tax rates used to calculate the Divide the Taxes to Raise.<sup>13</sup>

---

<sup>13</sup> Our analysis does not attempt to predict future approval by the voters of general obligation bonds or local option levies, nor does it attempt to forecast potential general obligation bond and local option levies that may be approved by voters in the future.

**Exhibit 15. Interstate Corridor Urban Renewal Area**  
**Consolidated tax rates for calculating Area Divide the Taxes to Raise,**  
**Levy Code Area 710 (\$/1,000 of Assessed Value)**  
**FY 2010-11 to FY 2015-16**

<b>Levy Code Area 710</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>
<b>General Government - Permanent Rates</b>						
City of Portland	4.5770	4.5770	4.5770	4.5770	4.5770	4.5770
Port of Portland	0.0701	0.0701	0.0701	0.0701	0.0701	0.0701
Metro	0.0966	0.0966	0.0966	0.0966	0.0966	0.0966
Multnomah County	4.3434	4.3434	4.3434	4.3434	4.3434	4.3434
East Multno Soil	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000
City of Portland FPDR*	2.6348	2.7000	2.8000	2.9000	2.9500	3.0000
<i>Subtotal</i>	<i>11.8219</i>	<i>11.8871</i>	<i>11.9871</i>	<i>12.0871</i>	<i>12.1371</i>	<i>12.1871</i>
<b>General Government - Local Option Levy Rates</b>						
City of Portland	0.4026	0.4026	0.4026	0.4026	0.0000	0.0000
Multnomah County	0.8900	0.8900	0.8900	0.8900	0.8900	0.8900
Oregon Historical Society	0.0000	0.0500	0.0500	0.0500	0.0500	0.0500
<i>Subtotal</i>	<i>1.2926</i>	<i>1.3426</i>	<i>1.3426</i>	<i>1.3426</i>	<i>0.9400</i>	<i>0.9400</i>
<b>General Government - Bond Rates</b>						
City of Portland	0.1933	0.2274	0.2163	0.2061	0.1962	0.1086
Metro	0.3122	0.2437	0.2039	0.1565	0.1520	0.1476
Multnomah County	0.1512	0.1469	0.1374	0.1334	0.1075	0.0927
TriMet	0.0878	0.0812	0.0787	0.0000	0.0000	0.0000
<i>Subtotal</i>	<i>0.7445</i>	<i>0.6992</i>	<i>0.6363</i>	<i>0.4960</i>	<i>0.4557</i>	<i>0.3489</i>
<b>General Government Subtotal</b>	<b>13.8590</b>	<b>13.9289</b>	<b>13.9660</b>	<b>13.9257</b>	<b>13.5328</b>	<b>13.4760</b>
<b>Education - Permanent Rates</b>						
Portland Public School	5.2781	5.2781	5.2781	5.2781	5.2781	5.2781
PCC	0.2828	0.2828	0.2828	0.2828	0.2828	0.2828
Multnomah County ESD	0.4576	0.4576	0.4576	0.4576	0.4576	0.4576
<i>Subtotal</i>	<i>6.0185</i>	<i>6.0185</i>	<i>6.0185</i>	<i>6.0185</i>	<i>6.0185</i>	<i>6.0185</i>
<b>Education - Local Option Levy Rates</b>						
Portland Public School	1.2500	1.9900	1.9900	1.9900	1.9900	1.9900
<i>Subtotal</i>	<i>1.2500</i>	<i>1.9900</i>	<i>1.9900</i>	<i>1.9900</i>	<i>1.9900</i>	<i>1.9900</i>
<b>Education - Bond Rates</b>						
PCC	0.3531	0.3419	0.3338	0.3114	0.2581	0.2498
<i>Subtotal</i>	<i>0.3531</i>	<i>0.3419</i>	<i>0.3338</i>	<i>0.3114</i>	<i>0.2581</i>	<i>0.2498</i>
<b>Education Subtotal</b>	<b>7.6216</b>	<b>8.3504</b>	<b>8.3423</b>	<b>8.3199</b>	<b>8.2666</b>	<b>8.2583</b>
<b>Consolidated Rate</b>	<b>21.4806</b>	<b>22.2793</b>	<b>22.3083</b>	<b>22.2456</b>	<b>21.7994</b>	<b>21.7343</b>

Source: ECONorthwest, 2011, from Multnomah County Assessors Office and Office of Management and Finance  
Note: The City of Portland is authorized to impose a levy for its Fire and Police Disability and Retirement Fund.  
The tax rate for their levy is expected to grow throughout the forecast period, though taxes to be raised by the fund are compressed as though they were from a permanent rate.

To calculate the Divide the Taxes to Raise, the consolidated tax rate is multiplied by the incremental assessed value. It is important to note that although the Divide the Taxes Revenues are calculated within the urban renewal area, the tax rate is split at the City level. This is done by creating urban renewal tax rates, and adjusting other tax rates accordingly in each levy code area in the City.

Each district tax rate is “divided,” so that a portion of the revenues associated with that rate are allocated to the urban renewal district, and a

portion continues to be allocated to the taxing district. The rate is calculated by dividing the Divide the Taxes Revenues that the district will generate in a given year by the total assessed value in that taxing district within the City. The result is an urban renewal rate, and an “urban renewal adjusted rate” for each taxing district rate. The Assessor calculates these rates for every combination of taxing district and urban renewal area in the City every year.

In other words, each taxing district’s rate is divided between the portion going to urban renewal and the portion it retains. The urban renewal rate is deducted from the taxing district’s rate. The total of all these deductions becomes the tax rate for the urban renewal area (the “Divide the Taxes Rate”). The Divide the Taxes Rate, when multiplied by the taxable assessed value of the property shared with the overlapping taxing districts within the City, determines the amount of Divide the Taxes to Raise before the effects of Measure 5 compression.

### **3.3 STEP THREE: FORECAST COMPRESSION LOSS**

---

As described previously, State statutes limit the taxes on any property to \$10 per \$1,000 of real market value for general government, and \$5 per \$1,000 of real market value for education. If these limits are lower than the taxes to be raised by applying the effective tax rate to the assessed value, then compression occurs, and the tax burden for that property is reduced.

The Divide the Taxes Rate is included in the general government category. The Divide the Taxes Rate is combined with the tax rates of other general government taxing jurisdictions (i.e., all public agencies not related to education) to calculate compression. For any property, if the taxes to be raised for general government are greater than \$10 per \$1,000 of real market value, then compression occurs.

The Divide the Taxes Rate consists of three parts: taxes from local option levies, taxes from permanent rates and other levies, and taxes from general obligation bonds. Taxes from local option levies are compressed first. The Area is impacted proportionately based on the portion of its rate from local option levies compared to all other local option levies in a levy code area.

If all local option levies are reduced to zero, and the taxes to be raised still exceed \$10 per \$1,000 of real market value, then taxes are reduced further by reducing permanent rates and other levies. General obligation bond levies are not subject to Measure 5 compression. Once again, the

impact to the Area is proportional, compared to other taxing districts in each levy code area.

The Multnomah County Assessor's Office calculates compression on a property-by-property basis. An accurate projection of compression for this feasibility study would require data and assumptions on the future real market value, assessed value, and tax rates for all property in each levy code area in the City. The level of uncertainty associated with the assumptions that underlie future changes in these variables, combined with the complexity of the required city-wide, parcel-by-parcel analysis have led ECONorthwest to conclude that this approach would not be a sound methodology for this analysis.

To arrive at assumptions about compression change in our projections, we begin with an evaluation of historical levels of compression observed in the Area. Exhibit 16 shows compression losses for the Area from FY 2000-01 to FY 2010-11.<sup>14</sup>

**Exhibit 16. Interstate Corridor Urban Renewal Area**  
**Historical compression losses**  
**FY 2000-01 to FY 2010-11**

<b>Fiscal Year</b>	<b>Divide the Taxes to Raise</b>	<b>Compression and Other Losses</b>	<b>Divide the Taxes Imposed</b>	<b>Loss Percentage</b>
2001-02	\$ 1,188,514	\$ 42,626	\$ 1,145,888	3.6%
2002-03	\$ 2,171,882	\$ 129,266	\$ 2,042,616	6.0%
2003-04	\$ 3,189,794	\$ 264,599	\$ 2,925,195	8.3%
2004-05	\$ 4,573,052	\$ 319,863	\$ 4,253,189	7.0%
2005-06	\$ 5,378,337	\$ 282,269	\$ 5,096,068	5.2%
2006-07	\$ 7,207,648	\$ 317,536	\$ 6,890,112	4.4%
2007-08	\$ 9,596,526	\$ 472,510	\$ 9,124,016	4.9%
2008-09	\$ 10,875,936	\$ 493,547	\$ 10,382,389	4.5%
2009-10	\$ 12,988,569	\$ 681,406	\$ 12,307,163	5.2%
2010-11	\$ 14,330,886	\$ 935,698	\$ 13,395,188	6.5%

Source: City of Portland Office of Management and Finance, 2011

Note: Compression losses include miscellaneous adjustments made by the County Assessor.

Compression losses have fluctuated in dollar amounts over time. Compression losses as a percent of taxes to be raised peaked in FY 2003-04, and generally declined through FY 2008-09, as growth in real market values outpaced growth in assessed value. However, over the past two years, compression losses as a percent of taxes to be raised have increased as real market value growth has slowed.

---

<sup>14</sup> Note: The County Assessor includes other miscellaneous adjustments that are combined with compression. Throughout this report, our projections for compression losses include these other miscellaneous adjustments as well.

Factors that could cause compression losses to increase in the future include increased tax rates for general government, or a significant increase in the portion of properties with real market values declining relative to their assessed values. We emphasize that compression losses for the Area are determined by **citywide trends**, rather than just the properties within the Area. To account for the possibility of further decreases in real market value affecting compression rates across the City, we have conservatively assumed that compression losses will grow to 7.5% in FY 2011-12, remaining at 7.5% in FY 2012-13, and gradually declining to 6.0% by FY 2015-16. If growth in real market values accelerates, then compression rates will likely be lower than we forecast.

### 3.4 COMBINING THE STEPS: CALCULATE THE “IMPOSED” DIVIDE THE TAXES REVENUES

Exhibit 17 shows the projected Divide the Taxes Imposed, including the Divide the Taxes to Raise, the compression loss, and Divide the Taxes Imposed, which are net of compression losses. Assuming compression losses decline from 7.5% to 6.0% of Divide the Taxes to Raise over the next five years, we forecast annual compression loss will be \$1,188,472 in FY 2011-12, and staying relatively stable over the next five years.

**Exhibit 17. Interstate Corridor Urban Renewal Area  
Projected Divide the Taxes to Raise, compression losses, and Divide  
the Taxes imposed  
FY 2011-12 to FY 2015-16**

Fiscal Year	Divide the Taxes to Raise	Compression and Other Losses	Divide the Taxes Imposed	Loss Percentage
2011-12	\$ 15,846,297	\$ (1,188,472)	\$ 14,657,825	-7.5%
2012-13	\$ 16,861,547	\$ (1,264,616)	\$ 15,596,931	-7.5%
2013-14	\$ 17,933,878	\$ (1,255,371)	\$ 16,678,507	-7.0%
2014-15	\$ 18,682,582	\$ (1,214,368)	\$ 17,468,214	-6.5%
2015-16	\$ 19,798,746	\$ (1,187,925)	\$ 18,610,821	-6.0%

Source: ECONorthwest, 2011

#### 3.4.1 OTHER FACTORS THAT COULD IMPACT DIVIDE THE TAXES REVENUES

The projections of Divide the Taxes Revenues in this report are based on reasonable and conservative assumptions. It is possible, however, that changes in public policy could impact Divide the Taxes Revenues by the Area. In particular, expanding the Area boundaries, or voter approval of additional general obligation bonds and local option levies could increase



Divide the Taxes to Raise. While these actions would also increase compression losses, the overall impact would be positive for Area Divide the Taxes Imposed.

## Area expansions

The projections in this report are based on the current boundary of the Area. The Portland Development Commission is considering a Plan amendment that would expand the boundaries of the Area. The proposed expansions would increase the Area by 186 acres, and \$239,028,056 in assessed value.

Expanding the urban renewal area would have no impact on the assessed value or frozen base related to the properties already in the Area. The total frozen base would increase by an amount equal to the current assessed value of the properties in the proposed expansion areas. To the extent that these properties increase in assessed value over time, they would increase the growth in incremental value (and Divide the Taxes Revenues) above and beyond what is forecast in this report.

Exhibit 18 shows the breakdown of assessed value by property type in the proposed expansion areas. Similar to the Area, the proposed expansion areas are predominantly made up of real property, which constitutes 87% of the total assessed value in the proposed expansion areas.

### Exhibit 18. Interstate Corridor Urban Renewal Area, proposed expansion areas, assessed value by property type, FY 2010-11

Property Type	Assessed Value	Percent of Total AV	Real Market Value	AV/RMV Ratio
Real	\$ 207,275,890	87%	\$ 759,151,930	27%
Personal	\$ 28,370,105	12%	\$ 29,034,166	98%
Utility	\$ 3,382,061	1%	\$ 3,382,061	100%
Manufactured	\$ -	0%	\$ -	N/A
<b>Total</b>	<b>\$ 239,028,056</b>	<b>100%</b>	<b>\$ 791,568,157</b>	<b>30%</b>

Calculated by ECONorthwest with data provided by the Portland Development Commission and Multnomah County Assessor's Office.

Exhibit 19 shows the AV/RMV ratio for all property in the proposed expansion areas. The data show a very healthy gap between most properties assessed value and real market value. Nearly two-thirds of properties in the proposed expansion areas have assessed values that are less than half of their real market values, and more than 80% of properties have assessed values that are less than 70% of their real market values. The expansion areas do show 15% of properties have assessed values equal to their real market values, but this consists almost entirely of personal and utility property accounts.

**Exhibit 19. Interstate Corridor Urban Renewal Area  
proposed expansion areas, assessed value by AV/RMV ratio,  
FY 2010-11**

AV/RMV Ratio	Assessed Value	Percent of Total	Cumulative Percent of Total
0-29%	\$ 47,641,780	20%	20%
30-39%	\$ 59,657,480	25%	45%
40-49%	\$ 49,225,260	21%	65%
50-59%	\$ 19,649,810	8%	74%
60-69%	\$ 18,243,240	8%	81%
70-79%	\$ 4,166,550	2%	83%
80-89%	\$ 861,160	0%	83%
90-99%	\$ 3,787,090	2%	85%
100%	\$ 35,795,686	15%	100%
<b>Total</b>	<b>\$ 239,028,056</b>	<b>100%</b>	

Calculated by ECONorthwest with data provided by the Portland Development Commission and Multnomah County Assessor's Office.

Real property in the proposed expansion areas is predominantly commercial, with some residential (single-family, condominiums, and multifamily) uses as well. Exhibit 20 shows a breakdown of real property in the proposed expansion areas by acreage, assessed value, and real market value.

**Exhibit 20. Interstate Corridor Urban Renewal Area  
proposed expansion areas, assessed value of real property by use,  
FY 2010-11**

Land Use	Acreage		Parcels		Assessed Value		RMV	
	Acres	Percent	Number	Percent	Dollars	Percent	Dollars	Percent
Commercial	187.3	66.4%	807	50.9%	\$ 126,483,310	61.0%	\$ 541,461,350	71.3%
Single-family residential	35.4	12.5%	339	21.4%	\$ 28,406,530	13.7%	\$ 91,407,520	12.0%
Condominium	6.5	2.3%	233	14.7%	\$ 23,555,640	11.4%	\$ 41,827,240	5.5%
Vacant	29.5	10.4%	129	8.1%	\$ 3,841,120	1.9%	\$ 16,730,190	2.2%
Industrial	12.1	4.3%	39	2.5%	\$ 9,688,910	4.7%	\$ 19,505,430	2.6%
Multi-family residential	11.2	4.0%	37	2.3%	\$ 15,300,380	7.4%	\$ 48,220,200	6.4%
<b>Total</b>	<b>282.0</b>	<b>100.0%</b>	<b>1,584</b>	<b>100.0%</b>	<b>\$ 207,275,890</b>	<b>100.0%</b>	<b>\$ 759,151,930</b>	<b>100.0%</b>

Calculated by ECONorthwest with data provided by the Portland Development Commission and Multnomah County Assessor's Office.

The expansion areas are characterized by relatively healthy commercial corridors with low AV/RMV ratios. Our assessment of the proposed expansion is that adding these areas to the Interstate Corridor URA is unlikely to have any negative impact on future Divide the Taxes Revenues. We anticipate that property values in the expansion areas will behave similarly to property currently in the Area, in which case the proposed expansions would have a positive impact on Divide the Taxes Revenues. However, as mentioned earlier, this report excludes the impact of any potential expansion areas from our forecasts of Divide the Taxes Revenues.

## **General obligation bonds and local options levies**

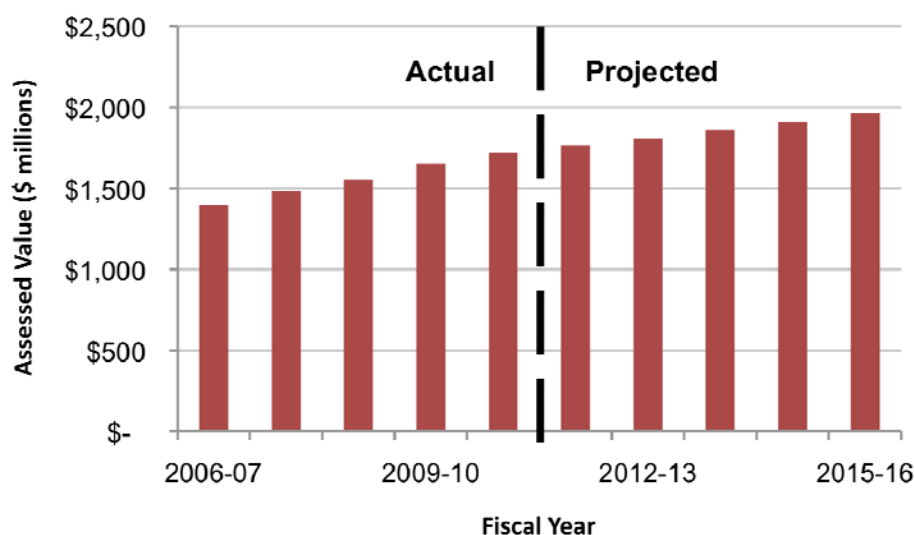
The Interstate Corridor Urban Renewal Area is a Standard Rate Plan. That means that the applicable tax rate for calculating Divide the Taxes Revenues is impacted by any changes in the tax rates of overlapping taxing districts. If voters approve new local option levies or general obligation bonds, it will increase the applicable tax rate for the Area, and thus, increase Divide the Taxes Imposed. Conversely, if existing general obligation bonds are retired or if voters fail to renew existing local option levies, then Divide the Taxes Imposed will decline.

Most recently, in the May election, voters approved a local option levy for Portland Public Schools of \$1.99 per \$1,000 of assessed value. This was an increase over the previous local option levy rate, which had been \$1.25 per \$1,000. In the same election, however, voters narrowly defeated a proposed general obligation bond for Portland Public Schools, which would have increased the applicable tax rate by \$2.00 per \$1,000 of assessed value.

It is speculative to guess which jurisdictions will put local option levies and general obligation bonds on the ballot over the next five years, though many taxing districts are considering potential tax increases in the near future. Tax increases that are approved by voters should have a positive impact on Divide the Taxes Revenues.

Exhibit 21 shows historical and projected growth in assessed value in the Area. Future growth in assessed value from FY 2010-11 to FY 2015-16 is projected to be 2.7% per year on average, compared with 5.6% per year from FY 2006-07 to FY 2010-11.

**Exhibit 21. Interstate Corridor Urban Renewal Area**  
**Historical and projected growth in assessed value in Area**  
**FY 2006-07 to FY 2015-16**



Source: ECONorthwest, 2011, with historical raw data from Multnomah County Assessor's Office.

Exhibit 22 shows projections for Divide the Taxes Revenues to Raise, compression loss, and Divide the Taxes Imposed in nominal dollars from FY 2011-12 to FY 2015-16. Divide the Taxes Imposed are projected to be \$14,657,825 for FY 2011-12, and experience growth over the five-year period. The City's practice is to issue debt secured by Divide the Taxes Revenues using a level debt service amortization schedule that is based only on revenue collections in the year the bonds are issued. The City does not rely on future growth in the Divide the Taxes Revenues to pay debt service. Any increase in the projected Divide the Taxes Revenues would provide an additional cushion to ensure debt service can be paid in the event of unanticipated losses of incremental assessed value, higher delinquencies, or other factors.

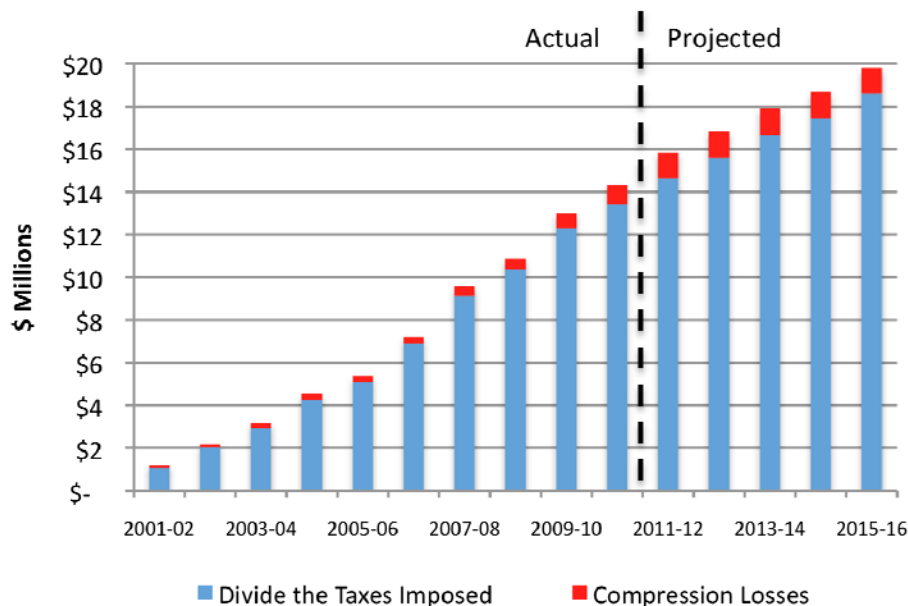
## Exhibit 22. Interstate Corridor Urban Renewal Area Projected Divide the Taxes Revenues, FY 2011-12 to FY 2015-16

	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
Total Assessed Value	\$ 1,762,664,846	\$ 1,807,250,222	\$ 1,857,584,762	\$ 1,908,431,129	\$ 1,962,353,075
Frozen Base	\$ 1,051,408,349	\$ 1,051,408,349	\$ 1,051,408,349	\$ 1,051,408,349	\$ 1,051,408,349
Incremental Assessed Value	\$ 711,256,497	\$ 755,841,873	\$ 806,176,413	\$ 857,022,780	\$ 910,944,726
Consolidated Tax Rate	\$ 22.2793	\$ 22.3083	\$ 22.2456	\$ 21.7994	\$ 21.7343
Divide the Taxes to Raise	\$ 15,846,297	\$ 16,861,547	\$ 17,933,878	\$ 18,682,582	\$ 19,798,746
Compression Loss	\$ (1,188,472)	\$ (1,264,616)	\$ (1,255,371)	\$ (1,214,368)	\$ (1,187,925)
Compression Loss Percent	-7.5%	-7.5%	-7.0%	-6.5%	-6.0%
<b>Divide the Taxes Imposed</b>	<b>\$ 14,657,825</b>	<b>\$ 15,596,931</b>	<b>\$ 16,678,507</b>	<b>\$ 17,468,214</b>	<b>\$ 18,610,821</b>

Source: ECONorthwest, 2011

Exhibit 23 shows historical and projected Divide the Taxes Imposed and compression losses. The chart shows that projected Divide the Taxes Imposed will grow at a more modest rate than recent years (FY 2005-06 to FY 2009-10). Also, forecast compression losses are a greater percentage of total TIF revenues than historical trends.

## Exhibit 23. Interstate Corridor Urban Renewal Area Divide the Taxes Imposed and compression losses FY 1999-00 to FY 2015-16



Source: ECONorthwest, 2011

# Disclaimers

---

This report identifies sources of information and assumptions used in the analysis. Every effort was made to check the reasonableness of the data and assumptions that underlie the projections in the report, but any forecast of the future is uncertain. Concluding that these assumptions are reasonable does not guarantee that projections will be realized. The actual Divide the Taxes Revenues (often referred to as “tax increment revenues”) generated by the Area are subject to many unpredictable factors. Our analysis does not take into account the following factors that could cause actual Divide the Taxes Revenue collections to vary from our projections:

- Future legislative actions that affect the State property tax system or urban renewal
- Major external events that affect the local economy and real estate market
- Actions of individual property owners regarding the development or sale of property, or any other actions that could affect property values
- Other conditions described in the Risk to Bondholders section of the Official Statement for the City of Portland, Oregon Interstate Corridor Urban Renewal and Redevelopment Bonds, 2011 Series A and B.

ECONorthwest prepared this report based on its knowledge of economic impact analysis and feasibility studies for urban renewal areas, and information derived from government agencies (especially the Multnomah County Assessor’s Office), private statistical services, the reports of others, interviews of individuals, or other sources believed to be reliable. ECONorthwest cannot verify the accuracy of all data sources used in this report and makes no representation regarding their accuracy or completeness. Any statements nonfactual in nature constitute the authors’ current opinions, which may change as more information becomes available.

We have also described our analytic techniques and their limitations. Staff at the Office of Management and Finance reviewed our analysis for reasonableness. As time passes the results in this report should not be used without correcting for changing market conditions.

---

**APPENDIX F**  
**LEGAL OPINION**

---





\_\_\_\_\_, 2011

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

Subject: City of Portland, Oregon, Interstate Corridor Urban Renewal and Redevelopment Bonds  
\$ \_\_\_\_\_ 2011 Series A (Federally Taxable)  
\$ \_\_\_\_\_ 2011 Series B (Tax-Exempt)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Portland, Oregon (the “City”) of its Interstate Corridor Urban Renewal and Redevelopment Bonds, 2011 Series A (Federally Taxable) (the “2011 Series A Bonds”) and its Interstate Corridor Urban Renewal and Redevelopment Bonds, 2011 Series B (Tax-Exempt) (the “2011 Series B Bonds” and collectively with the 2011 Series A Bonds, the “2011 Bonds”), which are dated as of \_\_\_\_\_, 2011. The 2011 Bonds are issued pursuant to City Ordinance No. 184212 adopted November 3, 2010 (the “Ordinance”), a Master Bond Declaration dated as of December 9, 2004 and a First Supplemental Bond Declaration dated as of \_\_\_\_\_, 2011 (collectively, the “Bond Declaration”). Capitalized terms not defined herein shall have the meanings defined for such terms in the Bond Declaration.

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 relating to the 2011 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 certified proceedings and on other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

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

1. The 2011 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 Ordinance has been properly adopted by the City and the Bond Declaration and the 2011 Bonds constitute valid and legally binding obligations of the City enforceable in accordance with their terms.

2. The 2011 Bonds are special, limited obligations of the City secured solely by and payable solely from the Interstate Corridor Tax Increment Revenues, and related amounts that are pledged to pay the 2011 Bonds in the Bond Declaration.

3. Interest on the 2011 Series B Bonds (including any original issue discount properly allocable to an owner thereof) is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. The portion of the opinion set forth in this paragraph is subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the “Code”), that must be satisfied subsequent to the issuance of the 2011 Series B Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The City has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the 2011 Series B Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the 2011 Series B Bonds.

4. Interest on the 2011 Series A Bonds is not excludable from gross income for federal income tax purposes.

5. Interest on the 2011 Bonds is exempt from Oregon personal income tax.

We note that the City has not designated the 2011 Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b)(3)(B) of the Code.

Except as expressly stated above, we express no opinion regarding any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the 2011 Bonds. Owners of the 2011 Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the 2011 Bonds, which may include original issue discount, original issue premium, purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, the extent to which interest on the 2011 Series B Bonds is included in adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations, and various withholding requirements.

The portion of this opinion that is set forth in paragraph 1, above, is qualified only to the extent that enforceability of the 2011 Bonds may be limited by or rendered ineffective by (i) bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting creditors’ rights generally; (ii) the application of equitable principles and the exercise of judicial discretion in appropriate cases; (iii) common law and statutes affecting the enforceability of contractual obligations generally; (iv) principles of public policy concerning, affecting or limiting the enforcement of rights or remedies against governmental entities such as the City.

This opinion is given as of the date hereof, and we assume no obligation to update, revise, or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

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. This opinion speaks as of its date only, and we disclaim any undertaking or obligation to advise you of any changes that hereafter may be brought to our attention or any change in law that may hereafter occur.

This opinion is given solely for your benefit in connection with the above referenced 2011 Bonds and may not be relied on in any manner or for any purpose by any person or entity other than the addressees listed above and the owners of the 2011 Bonds, nor may copies be furnished to any other person or entity, without the prior written consent of K&L Gates LLP.

We have served only as bond counsel to the City in connection with the 2011 Bonds and have not represented any other party in connection with the 2011 Bonds. Therefore, no attorney-client relationship shall arise by virtue of our addressing this opinion to persons other than the City.

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.

Respectfully submitted,

K&L GATES LLP

Lawyers

---

**APPENDIX G**  
**CONTINUING DISCLOSURE CERTIFICATE**

---



## CONTINUING DISCLOSURE CERTIFICATE

City of Portland, Oregon

\$ \_\_\_\_\_

**Interstate Corridor**

**Urban Renewal and Redevelopment Bonds**

**2011 Series A**

**(Federally Taxable)**

\$ \_\_\_\_\_

**Interstate Corridor**

**Urban Renewal and Redevelopment Bonds**

**2011 Series B**

**(Tax Exempt)**

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 Interstate Corridor Urban Renewal and Redevelopment Bonds, 2011 Series A (Federally Taxable) (the "2011 Series A Bonds") and its Interstate Corridor Urban Renewal and Redevelopment Bonds, 2011 Series B (Tax-Exempt) (the "2011 Series B Bonds" and collectively with the 2011 Series A Bonds, the "Securities").

Section 1. Purpose of Certificate. This Certificate is being executed and delivered by the City for the benefit of the Bondowners as defined below, and to assist the underwriter(s) of the Securities 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 paragraph (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 Securities, including persons holding Securities through nominees or depositories.

"Bondowners" means the registered owners of the Securities, as shown on the bond register maintained by the paying agent for the Securities, 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 or any successor thereto, and which is currently 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 Securities dated \_\_\_\_\_, 2011.

"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 for the prior fiscal year (commencing no later than March 31, 2012, for the fiscal year ended June 30, 2011):

A. The City's previous fiscal year annual financial statements prepared in accordance with the Oregon Local Budget Law (or any successor statute) and in accordance with generally accepted accounting principles so prescribed by the Governmental Accounting Standards Board (or its successors); and,

B. To the extent not included in those annual financial statements, information generally of the type included in the Official Statement under Appendix D: "City Operating and Financial Information" and the following current and historical information generally of the type under the heading "Area Property Values, Tax Increment Revenues, and Indebtedness"

- Real Market Value and Assessed Values
- Changed Property Ratios
- Top Taxpayer Accounts
- Consolidated Tax Rates
- Measure 5 Compression
- Tax Collection Records
- Tax Increment Collections
- Long-Term Debt

Section 4. Timing. The information described in Sections 3.A and 3.B above shall be provided on or before nine months after the end of the City's fiscal year. The City's current fiscal year ends June 30. The City may adjust such fiscal year by providing written notice of the change of fiscal year to 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.

The City agrees to provide or cause to be provided, in a timely manner, to the MSRB, notice of its failure to provide the annual financial information described in Sections 3.A and 3.B above on or prior to the date set forth in the preceding paragraph.

Section 5. Material Events. The City agrees to provide or cause to be provided 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 Securities:

1. principal and interest payment delinquencies;
2. non-payment related defaults, if material;
3. unscheduled draws on debt service reserves reflecting financial difficulties;
4. unscheduled draws on credit enhancements reflecting financial difficulties;
5. substitution of credit or liquidity providers or their failure to perform;
6. adverse tax opinions, 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;

7. modifications to the rights of security holders, if material;
8. bond calls, if material, and tender offers;
9. defeasances;
10. release, substitution or sale of property securing repayment of the securities, if material;
11. rating changes;
12. bankruptcy, insolvency, receivership or similar event of the obligated person (Note: For the purposes of the event identified in this paragraph 12, 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 U.S. 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.);
13. 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;
14. appointment of a successor or additional trustee or the change of name of a trustee, if material.

Section 6. Termination/Modification. The City's obligations to provide notices of material events shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Securities. 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 Securities; and (b) notifies the MSRB of such opinion and the cancellation of this Certificate.

Section 7. Amendment. Notwithstanding any other provision of this Certificate, the City may amend this Certificate, and any provision of this Certificate may be waived, provided that the following conditions are satisfied:

A. If the amendment or waiver relates to the provisions of Sections 3.A or 3.B or Section 5 hereof, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the City with respect to the Securities, or the type of business conducted;

B. The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule

at the time of the original issuance of the Securities, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

C. The amendment or waiver either (i) is approved by the Bondowners 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 or waiver of a provision of this Certificate, the City shall describe such amendment in the next annual report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a material event under Section 5 hereof, and (ii) the annual report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 8. 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 Securities hereunder. 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 Securities, and no monetary damages shall arise or be payable hereunder, and the sole remedy under this Certificate in the event of any failure of the City to comply with this Certificate shall be an action to compel performance.

Section 9. Form of Information. All information required to be provided under this certificate will be provided in an electronic format as prescribed by the MSRB and with the identifying information prescribed by the MSRB.

Section 10. Filing with EMMA. Any filings required by this certificate to be made with the MSRB may be made through EMMA so long as it is approved by the MSRB.

Section 11. 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 \_\_\_\_ day of \_\_\_\_\_, 2011.

**City of Portland, Oregon**

---

B. Jonas Biery, Debt Manager



---

## **APPENDIX H**

### **BOOK-ENTRY SYSTEM**

---



## BOOK-ENTRY 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 Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other 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.

---

**APPENDIX I**  
**THE PORTLAND DEVELOPMENT COMMISSION**

---



## **THE PORTLAND DEVELOPMENT COMMISSION**

The Portland Development Commission (the “Commission”) was created as a City agency in 1958 by Portland voters to deliver projects and programs that achieve the city’s housing, economic development and redevelopment priorities and link citizens to jobs.

### **PURPOSE AND FUNCTIONS**

The Commission is the City agency that helps provide sustained livability for the City and region. The mission is to bring together community resources to achieve Portland’s vision of a vital economy with healthy neighborhoods and quality jobs for all citizens. In the five decades since the Commission was established, City Council has created over 20 urban renewal areas in Portland neighborhoods to deliver a broad range of housing and neighborhood improvement programs, and has carried out a comprehensive range of economic development programs aimed at creating jobs for City residents. The Commission currently administers eleven urban renewal areas.

### **MANAGEMENT**

The Commission is governed by a five-member citizen Board, appointed by the Mayor and approved by the City Council. Commission business is conducted at monthly public meetings and all Commission activities are guided by its annual budget. The Executive Director of the Commission since March 23, 2011, is Patrick Quinton. Mr. Quinton has been with the Commission for three years and had served as the Business and Industry Division Manager. The Commission’s Central Services Director and Chief Financial Officer is Julie V. Cody.

### **URBAN RENEWAL AREAS**

The Commission currently has four urban renewal areas – Airport Way, Downtown Waterfront, Oregon Convention Center, South Park Blocks – that were in existence on December 5, 1996 and designated as “Option 3” plans for tax collection purposes (the “Option 3 Plan Areas”). Five urban renewal areas, including River District, Lents Town Center, North Macadam, Interstate Corridor, and Gateway Regional Center, have been established since December 5, 1996, but before October 6, 2001, (the “Standard Rate Plan Areas”). Two urban renewal areas, the Willamette Industrial Urban Renewal Area and the Central Eastside Urban Renewal Area, have been formed or substantially amended on or after October 6, 2001 (the “Reduced Rate Plan Areas”). Tax increment revenues collected for one area may not be transferred to or used to pay debt service on indebtedness for another area.

### **Collection Options**

Tax increment revenues for the Option 3 Plan Areas are derived from Divide the Taxes Revenues and also may include revenues from an additional tax imposed within the boundaries of their creating city or county (the “Special Levy”). The Standard Rate Plan Areas are only authorized to collect Divide the Taxes Revenues. The Divide the Tax Revenues for each of the Standard Rate Plan Areas are generated by multiplying the incremental assessed value of the area by the consolidated billing tax rate, which is the sum of all tax rates of overlapping taxing jurisdictions, including permanent rates, local option levy rates, the City’s FPDR levy rate, and general obligation bond rates. The Reduced Rate Plan Areas, which include the Central Eastside Urban Renewal Area, also are only authorized to collect the Divide the Taxes Revenues. However, the consolidated billing tax rate used to calculate the Divide the Taxes Revenues for these areas excludes all local option levies and general obligation bond levies approved by the voters on or after October 6, 2001, as well as a portion of the Portland Public School permanent rate.

### **Maximum Indebtedness**

The eleven urban renewal areas have approved plans establishing Maximum Indebtedness amounts, which are shown in the table below. The table also shows the amount of debt applied against the Maximum Indebtedness amount as of July 1, 2011. The Maximum Indebtedness amounts represent the maximum amount of debt that can be issued in each area through the life of the urban renewal plan to complete the projects identified in the plan. The City is not required to fund the Maximum Indebtedness amount.

**Table K1**  
**CITY OF PORTLAND URBAN RENEWAL DISTRICTS**  
**Maximum Indebtedness and Debt Issued as of July 1, 2011 (1)**

<b>Urban Renewal District</b>	<b>Maximum Indebtedness</b>	<b>Debt Issued (2)</b>	<b>Remaining Indebtedness</b>
Airport Way	\$72,638,268	\$72,638,268	\$0
Central Eastside	104,979,000	78,779,340	26,199,660
Downtown Waterfront	165,000,000	165,000,000	0
Gateway Regional Center	164,240,000	27,680,073	136,559,927
Interstate Corridor	335,000,000	117,351,223	217,648,777
Lents Town Center	245,000,000	93,405,000	151,595,000
North Macadam	288,562,000	95,800,000	192,762,000
Oregon Convention Center	167,511,000	118,746,155	48,764,845
River District	489,500,000	209,909,718	279,590,282
South Park Blocks	143,619,000	112,035,000	31,584,000
Willamette Industrial	200,000,000	2,845,000	197,155,000
<b>Total</b>	<b>\$2,376,049,268</b>	<b>\$1,094,189,779</b>	<b>\$1,281,859,489</b>

Notes:

- (1) Totals may not foot due to rounding.
- (2) This amount includes both long term debt and short-term subordinate debt.

Source: City of Portland.

## **FINANCIAL OPERATIONS**

The Commission has been awarded the Government Finance Officers Association's (the "GFOA") Certificate of Achievement for Excellence in Financial Reporting every year since 1988. 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.

### **Budgeting Process**

The Commission prepares an annual budget in accordance with provisions of the Oregon Local Budget Law, which provides standard procedures for the preparation, presentation, administration, and approval of budgets. In addition to the annual budget, the Commission develops a five-year capital project forecast for planning purposes.

Every year between the months of October and January, the Executive Director of the Commission prepares a Requested Budget based upon the overall goals of the Commission, the goals and objectives in the respective urban renewal area plans, and availability of resources. The Commission engages in significant public outreach to stakeholder groups during the budget development phase. The budget development phase includes early involvement with the City Council, which is structured to enhance the linkage between the policies and strategic direction of City Council and Commission implementation. The Requested Budget is reviewed by the Commission, the City's Office of Management and Finance, and the City Council. Recommended changes by the Commission and the Council are incorporated into the Proposed Budget. The Proposed Budget is sent to City Council, acting as the Commission's Budget Committee, for review and approval.

In May 2007, City voters authorized a change to the City Charter to provide oversight of the Commission budget by the City Council and to authorize the City Auditor to conduct financial and performance audits of the Commission. The City Charter was amended to establish the City Council as the Commission's Budget Committee. Further, the 2007 State of Oregon Legislature passed House Bill 3104 (Chapter 670, Oregon Laws 2007), which amends ORS 294.341 to establish the City Council as the Budget Committee for the Commission's budget under Oregon Local Budget Law.

The FY 2011-12 Budget Process will be the fourth budget process that includes the City Council as the Commission's Budget Committee. The purpose of the Budget Committee is to publicly meet and review the Proposed Budget of the Commission. Through one or more public meetings, the Budget Committee will receive the Proposed Budget, provide an opportunity for the



public to ask questions, and take action to approve the budget. When approving the budget, the Budget Committee through a majority vote will take action to establish the maximum total expenditures for each fund. Following Budget Committee approval, the budget is forward to the TSCC for review and the Commission for review and adoption of the budget. When adopting the budget, the Commission cannot increase any one fund's expenditures by more than ten percent of the total approved by the Budget Committee.

The Commission has been awarded the GFOA's "Distinguished Budget Presentation Award" for its FY 2002-03 through FY 2010-11 budget documents. The Budget Awards Program is designed to encourage governments to prepare budget documents of the highest quality that meets criteria as an operations guide, as a financial plan, and as a communications device.

## **Insurance**

The Commission is not part of the City's self-insurance program and purchases a variety of commercial insurance policies to protect itself against loss. Like most other large public agencies, the Commission is exposed to various risks of losses related to torts, errors and omissions, general liability, property claims, injuries to employees, and unemployment claims.

The Commission is insured by the State Accident Insurance Fund ("SAIF") against losses from employee workers' compensation claims up to a limit of \$500,000 for each incident and each employee. The Commission is covered by a commercial general liability policy through Travelers Insurance in the amount of \$2,000,000 per occurrence and an additional \$5,000,000 excess liability policy subject to \$10,000 deductible and a blanket property policy through Lloyd's of London for \$100,000,000. A separate policy provides coverage for faithful performance (employee dishonesty) through Hartford Insurance in the amount of \$300,000, providing protection from losses from forgery, alteration, theft, and disappearance; employment practices liability coverage is provided through Zurich American Insurance in the amount of \$3,000,000 per claim with a \$150,000 deductible per claim; public officials errors and omission coverage is provided through Travelers in the amount of \$2,000,000 with a \$4,000,000 aggregate and a deductible of \$25,000 per claim. Automobile coverage for Commission fleet vehicles is provided through Travelers in the amount of \$1,000,000 for bodily injury/property damage with a \$250 deductible for comprehensive and \$500 deductible for collision. Umbrella policy provides an additional \$5 million under the excess liability umbrella policy.

The Commission has an aggressive risk management policy of transferring liability to contractors, lessees, event sponsors, and other entities through specific indemnification and insurance requirements in all contracts and agreements. The Commission has generally been successful in resolving claims and has not suffered any significant losses over the past year. In addition, there have been no significant reductions in insurance coverage or any insurance settlements that exceeded insurance coverage in any of the past six fiscal years.

The Commission also has an Internal Service Fund to meet insurance policy deductible amounts and other amounts not fully reimbursed from insurance proceeds, as necessary. The fund currently has an equity balance of \$249,700.





