

**PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 3, 2010**

**NEW ISSUE—COMPETITIVE  
BOOK-ENTRY ONLY**

**SALE DATE: August 10, 2010**

**RATINGS:  
Moody's Aa3  
Standard & Poor's AA**

*In the opinion of K&L Gates LLP, Portland, Oregon, Bond Counsel, assuming compliance with certain covenants of the City, interest on the 2010 Series A Bonds is excludable from gross income of the owners of the 2010 Series A Bonds for federal income tax purposes under existing law. Interest on the 2010 Series A Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on either individuals or corporations and is not included in adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations. In the opinion of Bond Counsel, interest on the 2010 Series A Bonds is exempt from Oregon personal income tax under existing law. See "Tax Matters" herein for a discussion of the opinion of Bond Counsel.*

**City of Portland, Oregon  
\$412,060,000\*  
Second Lien Sewer System Revenue Bonds  
2010 Series A**

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

**DATED:** Date of Delivery

**DUE:** As shown on inside cover

The Second Lien Sewer System Revenue Bonds, 2010 Series A (the "2010 Series A Bonds") will be issued in registered book-entry form only, in denominations of \$5,000 or integral multiples thereof. The 2010 Series A Bonds, when executed and delivered, will be registered in the name of Cede & Co., as the registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2010 Series A Bonds. While Cede & Co. is the registered owner of the 2010 Series A Bonds (the "Owner") as nominee of DTC, references herein to the Bondowners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the 2010 Series A Bonds. See "BEO System" herein.

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

The 2010 Series A Bonds will bear or accrue interest rates as set forth on the inside cover. The 2010 Series A Bonds will be dated as of the Date of Delivery. Interest on the 2010 Series A Bonds will be payable semiannually on September 1 and March 1 of each year, beginning March 1, 2011.

The 2010 Series A Bonds being offered pursuant to this Official Statement are being issued to finance certain capital facilities and improvements to the sanitary sewer and stormwater drainage system (the "System" or "Sewer System") owned and operated by the City, to repay a line of credit, to fund the Second Lien Bond Reserve Requirement for the 2010 Series A Bonds, and to pay issuance costs. See "THE 2010 SERIES A BONDS – ESTIMATED SOURCES AND USES OF BOND PROCEEDS" herein.

The 2010 Series A Bonds are secured by a subordinate lien on, and are payable solely from, the Net Revenues and amounts required to be deposited in the Second Lien Bond Account and Second Lien Revenue Bond Reserve Account as provided in the Master Second Lien Sewer Revenue Bond Declaration (the "Master Second Lien Bond Declaration"). The lien of the pledge that secures the 2010 Series A Bonds is subordinate to the lien on the Sewer System revenues that secures the First Lien Bonds that the City has issued, and may issue in the future, under the First Lien Bond Ordinance. See "PROVISIONS OF THE 2010 SERIES A BONDS" herein. The 2010 Series A Bonds do not constitute general obligations of the City, and neither the full faith and credit nor the taxing power of the City is pledged for the payment of the principal of, premium (if any), or interest on the 2010 Series A Bonds. No recourse may be had against any funds or assets of the City (other than the Net Revenues of the Sewer System and the accounts described in this paragraph) to enforce payment of any amounts owing under or with respect to the 2010 Series A Bonds.

The 2010 Series A Bonds are subject to optional redemption prior to maturity. See "REDEMPTION OF 2010 SERIES A BONDS" herein.

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

*The 2010 Series A Bonds are offered when, as and if issued by the City and accepted by the successful bidder, subject to prior sale, withdrawal or modification of the offer without notice, to the final approving opinion of K & L Gates LLP, Portland, Oregon, Bond Counsel, and to certain other conditions. The City expects that the 2010 Series A Bonds will be available for delivery through the facilities of DTC in New York, New York, on or about August 19, 2010.*

\* Preliminary, subject to change.

## MATURITY SCHEDULE

**\$412,060,000\***

### **SECOND LIEN SEWER SYSTEM REVENUE BONDS 2010 SERIES A**

<b><u>Due March 1</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>
2011	\$17,490,000			
2012	9,660,000			
2013	9,950,000			
2014	10,250,000			
2015	10,660,000			
2016	11,090,000			
2017	11,530,000			
2018	11,990,000			
2019	12,470,000			
2020	13,040,000			
2021	13,620,000			
2022	14,300,000			
2023	15,020,000			
2024	15,770,000			
2025	16,560,000			
2026	17,380,000			
2027	18,250,000			
2028	19,170,000			
2029	20,130,000			
2030	21,130,000			
2031	22,190,000			
2032	23,300,000			
2033	24,460,000			
2034	25,680,000			
2035	26,970,000			

- (1) Registered Trademark 2008, American Bankers Association.  
CUSIP data is provided by Standard & Poor's CUSIP Service  
Bureau, a division of McGraw Hill Companies.

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\* Preliminary, subject to change.

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

**\$412,060,000\***  
**Second Lien Sewer System Revenue Bonds**  
**2010 Series A**

**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  
Vacant, City Treasurer  
Linda Meng, City Attorney  
  
Kenneth L. Rust, Chief Administrative Officer  
Richard F. Goward, Jr., Chief Financial Officer

**DEBT MANAGEMENT**

Eric H. Johansen, Debt Manager  
1221 SW Fourth Avenue, Room 120  
Portland, Oregon 97204

Phone: (503) 823-6851  
Fax: (503) 823-4209  
Eric.Johansen@portlandoregon.gov

**BOND COUNSEL**

K & L Gates LLP  
Portland, Oregon

**FINANCIAL ADVISOR**

Public Financial Management, Inc.  
Seattle, Washington

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\* 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.

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 2010 Series A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The 2010 Series A Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon a specific exemption contained in such act, nor have the 2010 Series A Bonds been registered under the securities laws of any state.

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

**In connection with this offering, the successful bidder may over allot or effect transactions which stabilize or maintain the market price of the 2010 Series A Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued, and if discontinued, then recommenced, at any time.**

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**OFFICIAL NOTICE OF BOND SALE**  
**\$412,060,000**  
**City of Portland, Oregon**  
**Second Lien Sewer System Revenue Bonds**  
**2010 Series A**

NOTICE IS HEREBY GIVEN that the City of Portland, Oregon (the “City”) is soliciting bids to purchase its Second Lien Sewer System Revenue Bonds, 2010 Series A (the “Bonds”) until 9:00 a.m. (Prevailing Pacific Time) on:

**August 10, 2010.**

Bids must be submitted electronically via **PARITY** in accordance with this Notice in the manner described below.

**SECURITY:** The Bonds are special obligations of the City, payable solely from the revenues of the City’s sewer system and related amounts, as defined and described in greater detail in the preliminary official statement for the Bonds. The Bonds do not constitute general obligations of the City, and neither the full faith and credit nor the taxing power of the City is pledged for the payment of the principal of, premium (if any), or interest on the Bonds.

**RATING:** The City has applied to Moody’s Investors Service and to Standard & Poor’s Corporation for a rating on the Bonds.

**DATED DATE AND DELIVERY DATE:** The Bonds will be dated as of their date of delivery. Bidders should use August 19, 2010, the expected delivery date of the Bonds, for purposes of computing their bids.

**INTEREST PAYMENTS AND MATURITIES:** Interest on the Bonds is payable semiannually on March 1 and September 1 of each year until maturity or prior redemption, commencing March 1, 2011. The Bonds will be issued in the principal amount of \$412,060,000\*, and will mature on the following dates in the following principal amounts (subject to adjustment as noted below).

<u><b>Due March 1</b></u>	<u><b>Principal Amount (\$)</b></u>	<u><b>Due March 1</b></u>	<u><b>Principal Amount (\$)</b></u>
2011	17,490,000	2024	15,770,000
2012	9,660,000	2025	16,560,000
2013	9,950,000	2026	17,380,000
2014	10,250,000	2027	18,250,000
2015	10,660,000	2028	19,170,000
2016	11,090,000	2029	20,130,000
2017	11,530,000	2030	21,130,000
2018	11,990,000	2031	22,190,000
2019	12,470,000	2032	23,300,000
2020	13,040,000	3033	24,460,000
2021	13,620,000	2034	25,680,000
2022	14,300,000	2035	26,970,000
2023	15,020,000		

\*This maturity schedule assumes that the winning bidder will use premium couponing based on current market trends; principal amounts may be adjusted after the sale as described under the heading “ADJUSTMENT OF MATURITIES.”

**ADJUSTMENT OF MATURITIES:** The City reserves the right to adjust the principal amount specified in the bidding maturity schedule within 4 hours following receipt of bids to properly size the issue. If the City adjusts the principal amount, the price to be paid to the City by the successful bidder will be adjusted in a manner that preserves the successful bidder’s percentage net compensation

Notice of any adjustment will be given to the winning bidder promptly.

**TERM BONDS:** Bidders may designate one or more term bonds. Term bonds may consist of two or more consecutive callable maturities (maturities on or after March 1, 2020) that have identical interest rates, and that mature on the maturity date of the last of the consecutive maturities in an amount equal to the sum of the consecutive maturities. Term bonds will be subject to mandatory redemption at par and by lot in amounts equal to the consecutive maturities which were combined into term bonds. Each bidder should specify in its bid whether term bonds are desired.

**OPTIONAL REDEMPTION:** The Bonds are subject to optional redemption prior to maturity in whole or in part at the option of the City on or after March 1, 2020, in any order of maturity and by lot within a maturity, any such redemption to be at a price equal to 100% of the principal amount to be redeemed, plus accrued and unpaid interest thereon to the date fixed for redemption.

**RIGHT TO CANCEL, CHANGE TIMING AND TERMS OF SALE:** The City reserves the right to change the date, maturity schedule, amount, timing, terms under which the Bonds are offered for sale, to postpone the sale to a later date, to cancel the sale based upon market conditions, or to amend this Notice by posting changes to this Notice on i-Deal Prospectus and by placing a notice of the changes on Thomson Muni News on Thomson Municipal Market Monitor ([www.tm3.com](http://www.tm3.com)).

**INTEREST RATE CONSTRAINTS:** No bid will be accepted which results in a true interest cost of more than five and one-half percent (5.50%) per annum. Bidders must specify the interest rate or rates which the Bonds shall bear. The bids must comply with the following conditions: (1) each interest rate specified in any bid must be a multiple of one one-thousandth of one percent (0.001%); (2) each Bond that matures on the same date shall bear interest from its date to its stated maturity date at a single, fixed interest rate; (3) the maximum interest rate per maturity of the Bonds shall not exceed six percent (6.00%); (4) no bid will be considered that does not offer to purchase all of the maturities of the Bonds; and (5) the interest rate specified for Bonds that mature after March 1, 2020 may not be less than the rate specified for the immediately preceding maturity (i.e., commencing March 1, 2021, the same rate of interest or an ascending rate of interest is required).

**DISCOUNT:** Bidders must specify a purchase price of not less than ninety-nine percent (99.0%) of the aggregate principal amount of the Bonds.

**BASIS OF AWARD:** Unless all bids are rejected, the Bonds will be awarded to the bidder whose bid produces the lowest overall true interest cost for the City. The true interest cost for the Bonds will be determined by doubling the semi-annual interest rate necessary to discount the debt service on the Bonds to the expected delivery date of the Bonds, as described in “DATED DATE AND DELIVERY DATE” above, and to the aggregate purchase price bid for the Bonds. Each bidder is requested to supply the total interest cost (in dollars) and the true interest cost (stated as a percentage) that the City will pay on the Bonds if the bid is accepted. Bids will be publicly announced and will be considered and acted upon by the City within 4 hours after the sale.



**BIDS MUST BE SUBMITTED ON “PARITY”:** Bids must be submitted electronically via **PARITY**. Bids must be received by the **PARITY** system not later than the date and time indicated in the first paragraph of this notice or such other bid submission deadline that may be established pursuant to the terms of this Notice. No bid will be received after the time for receiving bids specified above. For further information about submitting a bid using **PARITY**, potential bidders may contact **PARITY** at (212) 849-5021. To the extent any instructions or directions set forth in **PARITY** conflict with this Notice, the terms of this Notice shall control. Bidders must obtain access to the **PARITY** system and bear all risks associated with using that system, including errors and delays in receipt of bids. In the event there are any technical problems associated with **PARITY**, **PARITY** may fax bids that it receives prior to 9:00 a.m. (Prevailing Pacific Time), as soon as practicable to (503) 823-4209 to the attention of Eric Johansen, the City’s Debt Manager, for consideration by the City. Bids received by **PARITY** prior to 9:00 a.m. (Prevailing Pacific Time), but faxed after 9:00 a.m. (Prevailing Pacific Time) as provided in the preceding sentence, shall be considered conforming to the time requirements of this Notice.

**GOOD FAITH DEPOSIT:** The winning bidder must provide a good faith deposit to the City in the amount of \$500,000 not later than 1:00 p.m. Prevailing Pacific Time, August 10, 2010 (the date of sale). The deposit must be provided in the form of (a) a wire transfer to the account of the City designated by the City’s Debt Manager at the time of award, or (b) a certified or cashier’s check drawn on a bank doing business in the State of Oregon. If the good faith deposit is not provided in the manner and by the time indicated in this Notice, the City may award the sale to the next most favorable bidder or may cancel the sale. The good faith deposit will be forfeited to the City as liquidated damages if the bidder to whom the Bonds are awarded withdraws its bids or fails to complete its purchase in accordance with the terms of its bid and this Notice. No interest will be allowed on the good faith deposit and the good faith deposit will be retained as part payment of the Bonds or for liquidated damages as described in this Notice. The City shall be entitled to retain for the sole and exclusive use and benefit of the City all investment earnings derived from each good faith deposit prior to the delivery of the Bonds, and in no event shall the winning bidder be entitled to any such investment earnings (whether by means of a credit or otherwise).

**RIGHT OF REJECTION:** The City reserves the right to reject any or all bids and to waive any irregularities.

**BOOK-ENTRY-ONLY:** The Bonds will be issued in registered, book-entry-only form through DTC. Unless the book-entry-only system is discontinued, Bond principal and interest payments will be made by the City to DTC through the City’s paying agent and registrar, which is currently U.S. Bank National Association

**STANDARD FILINGS AND CHARGES:** The winning bidder will be required to make the standard filings and maintain the appropriate records routinely required pursuant to Municipal Securities Rulemaking Board (“MSRB”) Rules G-8, G-11, and G-36. The winning bidder will be required to pay the standard MSRB charge for the Bonds purchased. In addition, if the winning bidder is a member of the Securities Industry and Financial Markets Association (“SIFMA”) it will be required to pay SIFMA’s standard charges.

**PURPOSE:** The Bonds are being issued to finance a portion of the costs of certain capital facilities and improvements to the sanitary sewer and stormwater drainage system, to repay a line of credit, to fund a debt service reserve fund and to pay costs related to the Bonds, as defined and described in greater detail in the preliminary official statement for the Bonds.

**CERTIFICATE OF REOFFERING PRICE:** The winning bidder must provide the City’s Debt Manager with the reoffering prices and yields for the Bonds within one hour after award of the bid. The reoffering prices and yields so provided will be printed on the cover of the final official statement for the Bonds. In addition, the winning bidder must provide a certificate, satisfactory to Bond Counsel, not

later than two business days prior to the closing of the Bonds, that contains information which will permit Bond Counsel to determine the “issue price” of the Bonds. The certificate will require the winning bidder to certify that: it made a bona fide public offering of the Bonds at the reoffering yields or prices that the winning bidder provided to the Debt Manager; and it reasonably expected to sell at least 10% of each maturity of the Bonds at those reoffering yields or prices. Failure to provide the reoffering prices and yields, or the certificate satisfactory to Bond Counsel, may result in cancellation of the sale and forfeiture of the winning bidder’s good faith deposit.

**LEGAL OPINION:** The approving opinion of K&L Gates LLP, Bond Counsel, of Portland, Oregon, will be provided at no cost to the purchasers.

**TAX-EXEMPT STATUS:** In the opinion of Bond Counsel, under existing law and conditioned on the City complying with certain covenants relating to the tax-exempt status of the Bonds, interest on the 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, as provided in greater detail in the preliminary official statement for the Bonds. In the opinion of Bond Counsel, interest on the Bonds is exempt from Oregon personal income tax under existing law.

**DELIVERY AND PAYMENT:** The City will deliver the Bonds through the facilities of DTC. The winning bidder must pay for the Bonds in funds immediately available to the City on the date and at the time of closing. Delivery of the Bonds will be made within thirty days after the sale and is expected to occur on August 19, 2010.

**ADDITIONAL INFORMATION AND PRELIMINARY OFFICIAL STATEMENT:** Additional information and the preliminary official statement for the Bonds will be provided upon request to Eric Johansen at the City’s Office of Management and Finance, 1221 S.W. Fourth Avenue Room 120, Portland, Oregon 97204, telephone (503) 823-6851, telecopier (503) 823-4209, e-mail [eric.johansen@portlandoregon.gov](mailto:eric.johansen@portlandoregon.gov). The preliminary official statement may also be obtained from i-Deal Prospectus at [www.i-dealprospectus.com](http://www.i-dealprospectus.com). For more information on electronic delivery, please call i-Deal Prospectus at 212-849-5024. Any questions concerning **PARITY** should be directed to (212) 849-5021.

**FINAL OFFICIAL STATEMENT; COMPLIANCE WITH SEC RULES:** The City will provide the winning bidder with up to 150 copies of the final official statement for the Bonds at the expense of the City. Upon request, the City will provide additional copies of the final official statement at the expense of the bidder making the request. The official statement will be provided in a form “deemed final” by the City, not later than three business days prior to the anticipated delivery date of the Bonds. Bidders should expect that the official statements will not be available prior to the seventh business day following the date of the sale, and should not issue confirmations which request payment prior to that date. This paragraph will constitute a contract with the winning bidder upon acceptance of their bids by the City, in compliance with Section 240.15c2-12(b)(3) in Chapter II of Title 17 of the Code of Federal Regulations (the “Rule”).

**CONTINUING DISCLOSURE:** The City will enter into an undertaking to provide ongoing disclosure for the benefit of the owners of the Bonds as required by the Rule, in substantially the form shown in the preliminary official statement.

**CUSIP:** The City will obtain CUSIP numbers for the Bonds.

**CLOSING CERTIFICATES:** At the time of payment for the delivery of the Bonds, the City will certify that there is no litigation pending affecting the validity of the Bonds, and that to the City’s knowledge the official statement does not contain any material misstatements or omissions.

By order of the City of Portland, Oregon

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

**\$412,060,000\***  
**Second Lien Sewer System Revenue Bonds**  
**2010 Series A**

**INTRODUCTION**

The purpose of this Official Statement is to set forth certain information concerning the City of Portland, Oregon (the “City”), the municipally-owned sewer and stormwater drainage system of the City (the “System” or “Sewer System”), and the City’s Second Lien Sewer System Revenue Bonds, 2010 Series A (the “2010 Series A Bonds”), dated as of the Date of Delivery.

The 2010 Series A Bonds are secured by a subordinate lien on, and are payable solely from, the Net Revenues and amounts required to be deposited in the Second Lien Bond Account and Second Lien Revenue Bond Reserve Account as provided in the Master Second Lien Sewer Revenue Bond Declaration (the “Master Second Lien Bond Declaration”). The 2010 Series A Bonds are issued on parity with outstanding obligations and future borrowings issued under the Master Second Lien Bond Declaration (collectively, referred to herein as the “Second Lien Bonds”). The lien of and pledge that secures the Second Lien Bonds is subordinate to the lien on the Sewer System revenues that secures the bonds issued under the City Ordinance No. 160276 as amended (the “First Lien Bond Ordinance”), and may issue in the future, under the First Lien Bond Ordinance.

The 2010 Series A Bonds will be sold in accordance with City Ordinance No. 183469 adopted by the City Council on January 13, 2010 (the “Ordinance”), and City Ordinance 183576 adopted by the City Council on March 3, 2010. The Ordinance authorizes the Debt Manager to execute a supplemental bond declaration to specify the terms under which the 2010 Series A Bonds are issued and the administrative provisions that apply to the 2010 Series A Bonds, and to provide any covenants that apply to the 2010 Series A Bonds that are not contained in the First Lien Bond Ordinance, the Master Second Lien Bond Declaration, or the Ordinance.

The City’s Debt Manager will execute the Supplemental Bond Declaration for the 2010 Series A Bonds (the “2010 Supplemental Bond Declaration”) to establish the specific terms and conditions of the 2010 Series A Bonds, which are issued as Parity Indebtedness under the Master Second Lien Bond Declaration. The body of this Official Statement briefly summarizes many of the provisions of the Master Second Lien Bond Declaration and the 2010 Supplemental Bond Declaration (collectively, the “Bond Declaration”) and does not purport to be complete. Under the 2010 Supplemental Bond Declaration, the City has reserved the right to amend the Master Second Lien Bond Declaration, including amendments to permit replenishing deficiencies in subaccounts of the Second Lien Bond Reserve Account over time in certain circumstances and to facilitate the issuance of additional Second Lien Bonds as interest subsidy payment bonds. **By purchasing the 2010 Series A Bonds, the Owners of the 2010 Series A Bonds are deemed to have consented to such amendments.** Reference is made to the Master Second Lien Bond Declaration found in Appendix A and the 2010 Supplemental Bond Declaration which is found in Appendix B. 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.

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\*Preliminary, subject to change.

## **THE 2010 SERIES A BONDS**

### **DESCRIPTION**

The 2010 Series A Bonds are special obligations of the City, payable solely from the Net Revenues of the City's Sewer System and certain dedicated accounts, as more fully described herein. The 2010 Series A Bonds do not constitute a general obligation of the City, and neither the full faith and credit nor the taxing power of the City is pledged for payment of principal of, or premium, if any, or interest on the 2010 Series A Bonds. No recourse may be had against any funds or assets of the City (other than the Net Revenues of the Sewer System and the dedicated accounts) to enforce payment of any amounts owing under or with respect to the 2010 Series A Bonds.

### **AUTHORIZATION AND PURPOSE**

The 2010 Series A Bonds are being issued pursuant to ORS 287A.150 (the "Act"), which permits the City to authorize revenue bonds for any lawful purpose by enacting an ordinance that is subject to referendum. The 2010 Series A Bonds were authorized by the Ordinance, which was subject to referendum and was not referred, and the period for referring the Ordinance has ended.

The 2010 Series A Bonds are being issued to fund capital improvements to the City's Sewer System including projects related to the following programs:

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

Additionally, proceeds of the 2010 Series A Bonds will be used to repay a line of credit, to fund the Second Lien Bond Reserve Requirement for the 2010 Series A Bonds, and to pay costs of issuance. (See "ESTIMATED SOURCES AND USES OF BOND PROCEEDS" and "PROVISIONS OF THE 2010 SERIES A BONDS –RESERVE ACCOUNTS" herein.)

### **FORM**

The 2010 Series A Bonds will be issued in fully-registered book-entry only ("BEO") form without coupons in denominations of \$5,000 or integral multiples thereof. The 2010 Series A Bonds will be issued subject to the BEO System of registration, transfer and payment operated by The Depository Trust Company, New York, New York ("DTC"), and will be subject in all respects to the rules, regulations and agreements pertaining to such BEO System. In accordance with the BEO System, the 2010 Series A Bonds, when executed and delivered, will be registered in the name of Cede & Co., as registered owner and nominee for DTC. One fully-registered bond certificate will be issued for each maturity of the 2010 Series A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

Purchasers of the 2010 Series A Bonds who are the Beneficial Owners thereof will not receive certificates evidencing their ownership interests in the 2010 Series A Bonds. While Cede & Co. is the registered owner of the 2010 Series A Bonds (in such capacity, the "Owner") as nominee of DTC, it shall be treated in all respects as the sole Owner of the 2010 Series A Bonds and shall have the right to exercise (in lieu of the Beneficial Owners of the 2010 Series A Bonds) all rights as Owner, including but not limited to the right to give consents, the right to receive notices (including notices of redemption), and other rights conferred on owners of the 2010 Series A Bonds under the Bond Declaration or applicable law. So long as the 2010 Series A Bonds are subject to the BEO System, all registrations and transfers of beneficial ownership of the 2010 Series A Bonds will be made only through the BEO System. (See Appendix F for a discussion of the BEO System.)

### **MATURITY AND PAYMENT**

The 2010 Series A Bonds mature on March 1 of the years and in the aggregate principal amounts set forth on the inside cover page of this Official Statement and will bear interest from the Date of Delivery. Accrued and unpaid interest on the 2010 Series A Bonds will be due and payable semiannually on September 1 and March 1 of each year, commencing March 1, 2011.

So long as the 2010 Series A Bonds are subject to the BEO System, all payments of the principal of and interest on the 2010 Series A 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 2010 Series A Bonds. The City has no responsibility for the distribution of any payments on the 2010 Series A Bonds by DTC to any DTC Participant or by any DTC Participant to any Beneficial Owner, and shall have no liability whatsoever in the event of any failure by DTC or a DTC Participant to make any such distribution. See "BEO SYSTEM" in Appendix F herein.

## **REDEMPTION OF THE 2010 SERIES A BONDS**

### **Optional Redemption**

The 2010 Series A Bonds maturing on or after March 1, 2021, are subject to redemption at the option of the City on March 1, 2020, and on any date thereafter, in any order of maturity and by lot within a maturity, at a price of par, plus interest accrued to the date fixed for redemption. While the 2010 Series A Bonds are in BEO form, if less than all the outstanding 2010 Series A Bonds of a particular maturity are to be redeemed, DTC will select the particular 2010 Series A Bonds in accordance with its customary practices.

### **Notice of Redemption**

While the 2010 Series A Bonds are subject to the BEO System, notice of any redemption shall be given by the Paying Agent only to DTC in accordance with the agreement entered into among the City, the Paying Agent and DTC. It shall be the sole responsibility of DTC to give all notices of redemption to DTC Participants, and the DTC Participants, in turn, shall be responsible for giving such notices to the Beneficial Owners. Neither the City nor the Paying Agent will be responsible for giving any notice of redemption to any Beneficial Owner or any DTC Participant, nor shall the City or the Paying Agent be liable for any failure of DTC or any DTC Participant to give any such notice as described above. Interest on any 2010 Series A Bond or 2010 Series A Bonds called for redemption shall cease on the redemption date designated in the notice.

### **Conditional Notice of Redemption**

Any notice of optional redemption to the Paying Agent or to the Owners may state that the optional redemption is conditioned upon receipt by the Paying Agent of moneys sufficient to pay the redemption price of such 2010 Series A Bonds or upon the satisfaction of any other condition, and/or that such notice may be rescinded upon the occurrence of any other event, and the 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 2010 Series A Bonds as promptly as practicable upon the failure of such condition or the occurrence of such other event.

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

The Bond Declaration provides that official notice of redemption having been given (other than conditional notices of optional redemption as described above), the 2010 Series A Bonds or portions of 2010 Series A Bonds so to be redeemed shall, on the date fixed for redemption, become due and payable at the redemption price therein specified, and from and after such date (unless the City fails to pay the redemption price) such 2010 Series A Bonds or portion of 2010 Series A Bonds shall cease to bear interest.

## ESTIMATED SOURCES AND USES OF BOND PROCEEDS

The anticipated uses of proceeds from the 2010 Series A Bonds are itemized in the following table:

**Table 1**  
**CITY OF PORTLAND, OREGON**  
**Estimated Sources and Uses of 2010 Series A Bond Proceeds**

**Sources of Funds**

Par amount of bonds	\$
Original issue premium/(discount)	
TOTAL SOURCES	<hr/> \$ <hr/>

**Uses of Funds**

Deposit to construction fund	\$
Repayment of line of credit	
Underwriter's discount	
Deposit to debt service reserve account	
Costs of issuance	
TOTAL USES	<hr/> \$ <hr/>

Source: City of Portland.

The following table presents the debt service on the 2010 Series A Bonds.

**Table 2**  
**CITY OF PORTLAND, OREGON**  
**Debt Service for the 2010 Series A Bonds**

<b>Fiscal Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2011			
2012			
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
<b>Total</b>			

Source: City of Portland.

## PROVISIONS OF THE 2010 SERIES A BONDS

The purpose of this section of this Official Statement is to set forth certain information concerning the City's 2010 Series A Bonds. The 2010 Series A Bonds are Second Lien Bonds issued under the Master Second Lien Bond Declaration. See APPENDIX A herein for the provisions of the Master Second Lien Sewer Revenue Bond Declaration that apply to all Second Lien Bonds and definitions of terms used in relation to the 2010 Series A Bonds.

The body of this section of this Official Statement only contains summaries of the provisions of the Master Second Lien Bond Declaration. The 2010 Supplemental Bond Declaration will have the interest rates, payment, defeasance, and other terms of the 2010 Series A Bonds added after the 2010 Series A Bonds are sold. The 2010 Supplemental Bond Declaration also includes a description of amendments to the Master Second Lien Bond Declaration for which the City has reserved the right to execute and **by purchasing the 2010 Series A Bonds, the Owners of the 2010 Series A Bonds are deemed to have consented to such amendments.** To understand the terms of those documents, readers must review the entire documents, copies of which are attached as APPENDIX A and APPENDIX B. If the 2010 Series A Bonds are sold with bond insurance or reserve equivalents, the 2010 Supplemental Bond Declaration may be amended with the consent of the bond insurer and without consent of the owners of the 2010 Series A Bonds, and the 2010 Supplemental Bond Declaration may also have other provisions added at the request of the insurer or reserve equivalent providers of the 2010 Series A Bonds.

### SPECIAL OBLIGATION; PLEDGE OF NET REVENUES

The 2010 Series A Bonds are special obligations of the City secured by a pledge of and lien on, and payable solely from, the Net Revenues of the Sewer System and amounts required to be deposited in the Second Lien Bond Account and Second Lien Bond Reserve Account pursuant to the Master Second Lien Bond Declaration. The lien of the pledge that secures the 2010 Series A Bonds is subordinate to the lien on the Sewer System revenues that secures bonds issued under the First Lien Bond Ordinance (the "First Lien Bonds"), but shall otherwise be superior to all other claims and liens except liens and claims for the payment of Operating Expenses.

The 2010 Series A Bonds do not constitute general obligations of the City, and neither the full faith and credit nor the taxing powers of the City is pledged for the payment of the principal of, premium (if any) or interest on the 2010 Series A Bonds. No recourse may be had against any funds or assets of the City (other than the Net Revenues of the System) to enforce payment of any amounts owing under or with respect to the 2010 Series A Bonds.

Under ORS 287A.310, if a municipality is authorized by statute, or municipal charter to pledge its revenues, the pledge is valid and binding from the time the pledge is made, the revenues so pledged are immediately subject to the lien of such pledge without physical delivery, filing or other act, and the lien of such pledge is superior to all other claims and liens of any kind whatsoever. The Act pursuant to which the 2010 Series A Bonds are being issued authorizes such a pledge.

As described below, the City intends to amend the Master Second Lien Bond Declaration to provide that federal interest subsidies for Build America Bonds or similar obligations that are eligible for federal interest subsidies are pledged for the payment of Second Lien Bonds. See "PROVISIONS OF THE 2010 SERIES A BONDS – Proposed Amendments" below.

### RATE COVENANT

The City covenants for the benefit of the Owners of the Second Lien Bonds, including the 2010 Series A Bonds, that it will establish and maintain rates and charges in connection with the operation of the Sewer System which are sufficient to permit the City to pay all Operating Expenses and all lawful charges against the Net Revenues, and to make all transfers required by the Master Second Lien Bond Declaration to the Second Lien Bond Account, the Second Lien Bond Reserve Account and the Subordinate Obligations Account, and to pay any franchise fees or similar charges imposed by the City on the Sewer System or its operations.

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

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



- (2) that it shall charge rates and fees in connection with the operation of the Sewer System which, when combined with other Gross Revenues, are adequate to generate Net Revenues each Fiscal Year at least equal to one hundred ten percent (110.00%) of Combined Annual Debt Service due in that Fiscal Year.

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

As described below, the City intends to amend the Master Second Lien Bond Declaration to reduce Annual Second Lien Bond Debt Service and Combined Annual Debt Service by the amount of any federal interest subsidies for Second Lien Bonds and First Lien Bonds that are issued as Build America Bonds or similar obligations that are eligible for federal interest subsidies. See “PROVISIONS OF THE 2010 SERIES A BONDS – Proposed Amendments” below.

## FUNDS AND ACCOUNTS

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

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

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

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

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

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

## APPLICATION OF GROSS REVENUES

As long as any 2010 Series A Bonds remain issued and outstanding, the First Lien Bond Ordinance and the Master Second Lien Bond Declaration provide that Gross Revenues shall be used solely to pay the following amounts in the following order of priority:

1. To pay Operating Expenses of the Sewer System which are then due (other than payments to the Rate Stabilization Fund) and any rebate of earnings on nonpurpose obligations in which the gross proceeds of First Lien Bonds are invested which is required to be paid under Section 148(f) of the Internal Revenue Code of 1986, as amended;
2. To make payments to the First Lien Bond Debt Service Account in an amount sufficient to make timely payment of all First Lien Bond principal and interest when due, as required by Section 1.G.(2) of the First Lien Bond Ordinance;

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

## **RATE STABILIZATION FUND**

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

## **SECOND LIEN BOND RESERVE ACCOUNT**

Each Series of Second Lien Bonds, including the 2010 Series A Bonds, is additionally secured by amounts credited to a subaccount in the Second Lien Bond Reserve Account. Amounts credited to the subaccount established for the 2010 Series A Bonds (the “2010 Series A Reserve Subaccount”) are not available to pay other Series of Second Lien Bonds, and amounts credited to other subaccounts in the Second Lien Bond Reserve Account are not available to pay the 2010 Series A Bonds. The Master Second Lien Bond Declaration requires the City to fund and maintain a balance in the 2010 Series A Reserve Subaccount (but solely from the proceeds of the 2010 Series A Bonds and the Net Revenues) that is at least equal to the lesser of Maximum Annual Second Lien Bond Debt Service on the 2010 Series A Bonds, 125% of average annual debt service on the 2010 Series A Bonds, or ten percent of the proceeds of the 2010 Bonds. The City expects that the 2010 Reserve Subaccount will be funded at Maximum Annual Second Lien Debt Service on the 2010 Series A Bonds. The City has reserved the option to fund the contribution to the 2010 Series A Reserve Subaccount over a five-year period, but will fund the contribution for 2010 Series A Bonds in full on the date of closing either with bond proceeds or a Reserve Credit Facility. (See Appendix A and the definition of “Second Lien Bond Reserve Requirement.”)

In the 2010 Supplemental Bond Declaration, the City reserves the right to amend the Master Second Lien Bond Declaration to permit replenishing deficiencies in subaccounts in the Second Lien Bond Reserve Account if the deficiency is a result of the Reserve Credit

Facility having no value (pursuant to a means for valuing Reserve Credit Facilities as provided in the amended Master Second Lien Bond Declaration) over a period of five years in substantially equal annual installments and to provide for a means of valuing Reserve Credit Facilities. The amendments would also permit the City to issue additional Second Lien Bonds when the balance of any subaccount is below the applicable Reserve Requirement so long as such annual deposits are made. In addition, the amendments would clarify that the ratings requirement for a Reserve Credit Facility Provider would apply only at the time that the Reserve Credit Facility is issued. See “– PROPOSED AMENDMENTS” below.

### Reserve Credit Facilities for the 2010 Bonds

The City may fund the 2010 Series A Reserve Subaccount with cash, investments, or “Reserve Credit Facilities.” The Master Second Lien Bond Declaration states that a Reserve Credit Facility is a Credit Facility issued for the purpose of funding, in lieu of cash, all or any portion of the Second Lien Bond Reserve Requirement, under which the Credit Provider agrees to unconditionally provide the City with funds to transfer to the Second Lien Bond Reserve Account if amounts are required to be withdrawn from that account for deposit in the Second Lien Bond Account. The Master Second Lien Bond Declaration defines a “Credit Facility” as “means a letter of credit, a municipal bond insurance policy, a surety bond, standby bond purchase agreement or other credit enhancement device which is obtained by the City to secure Second Lien Bonds, and which is issued or provided by a Credit Provider whose long-term debt obligations or claims-paying ability (as appropriate) are rated one of the two highest rating categories by a Rating Agency which rated the Second Lien Bonds secured by the Credit Facility.” The City is not required, nor does it intend, to replace any surety bond if, subsequent to its purchase, the rating of the provider of such surety bond falls below a Aa3 or AA- by Moody’s or Standard & Poor’s, respectively.

**Table 3**  
**CITY OF PORTLAND, OREGON**  
**Reserve Credit Facility Amounts and Providers for Outstanding Second Lien Bonds (1)**

<b>Date of Issue</b>	<b>Termination Date</b>	<b>Surety Provider</b>	<b>Surety Face Amount</b>	<b>Ratings (4)</b>
4/3/2003	6/1/2023	AGM (2)	\$7,921,439	Aa3/AAA
5/25/2006	6/15/2031	NPFG (3)	6,118,475	Baa1/A
4/17/2008	6/15/2033	AGM (2)	17,028,836	Aa3/AAA

Notes:

- (1) As of July 1, 2010.
- (2) The City purchased Reserve Credit Facilities from Financial Security Assurance Inc. to fund the Second Lien Bond Reserve Requirement. In July 2009, Assured Guaranty acquired FSA and the surety bond provider for these bonds is now Assured Guaranty Municipal Corp. (“AGM”).
- (3) The City has purchased a Reserve Credit Facility from MBIA Insurance Corporation (“MBIA”) to fund the Second Lien Bond Reserve Requirement. Since the date of issue, MBIA has been restructured. The surety provider for these bonds is now National Public Finance Guarantee Corporation (“NPFG”).
- (4) Ratings for surety providers are from Moody’s Investors Service and Standard and Poor’s, respectively.

Source: City of Portland.

### ADDITIONAL SECOND LIEN PARITY OBLIGATIONS

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

- (1) A certificate of the Debt Manager stating that the Net Revenues (adjusted as provided below) for the Base Period were not less than one hundred ten percent (110.00%) of Maximum Combined Annual Debt Service on all then Outstanding First Lien Bonds and Second Lien Bonds, calculated as of the date the Parity Second Lien Obligations are issued and with the proposed Parity Second Lien Obligations treated as Outstanding; or

(2) A certificate or opinion of a Qualified Consultant:

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

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

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

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

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

## **SUBORDINATE OBLIGATIONS**

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

## **OTHER COVENANTS**

The City covenants that it will:

1. Promptly cause the principal, premium, if any, and interest on the First Lien Bonds and the Second Lien Bonds to be paid as they become due in accordance with the provisions of the First Lien Bond Ordinance, the Master Second Lien Bond Declaration and any Supplemental Declarations.
2. Maintain complete books and records relating to the operation of the Sewer System and all City funds and accounts in accordance with generally accepted accounting principles, shall cause such books and records to be audited annually at the end of each Fiscal Year, and shall have an audit report prepared by the Auditor and made available for the inspection of the First Lien Bond Owners and the Second Lien Bond Owners.

3. For the benefit of the Owners of the First Lien Bonds, not issue obligations having a claim that is superior to the claim of the First Lien Bonds upon the Net Revenues, except as provided in the First Lien Bond Ordinance.
4. For the benefit of the Owners of the Second Lien Bonds, not issue obligations which have a lien on the Net Revenues that is superior to the lien of the Second Lien Bonds except for First Lien Bonds and obligations to pay Operating Expenses.
5. Not amend the First Lien Bond Ordinance in any way that materially and adversely affects the rights of the Owners of Second Lien Bonds; however, this covenant shall not be construed to limit the ability of the City to issue First Lien Bonds pursuant to the provisions of the First Lien Bond Ordinance.
6. Promptly deposit the Gross Revenues and other amounts into the funds and accounts as required by the First Lien Bond Ordinance and the Master Second Lien Bond Declaration.
7. Cause the Sewer System to be operated at all times in a safe, sound, efficient and economic manner in compliance with all health, safety and environmental laws, regulatory body rules, regulatory body orders and court orders applicable to the City's operation and ownership of the Sewer System.
8. Maintain the Sewer System in good repair, working order and condition.
9. Not enter into any agreement to provide Sewer System products or services at a discount from published rate schedules, and that it will not provide free Sewer System products or services except in case of emergencies.
10. For the benefit of the Owners of the First Lien Bonds, maintain insurance, or a reasonable system of self insurance, appropriate to the risks associated with operation of the Sewer System.
11. For the benefit of Owners of the Second Lien Bonds, self insure the Sewer System or purchase all such insurance on the Sewer System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties, and apply the net proceeds of insurance covering Sewer System damage to the repair or rebuilding of the Sewer System, and to the extent not so applied, to the payment or redemption of the Second Lien Bonds.
12. Not sell, mortgage, lease or otherwise dispose of or encumber all or any portion of the Sewer System except as specifically permitted by the First Lien Bond Ordinance and the Master Second Lien Bond Declaration.

## PROPOSED AMENDMENTS

The Master Second Lien Bond Declaration includes requirements for amendments with and without consents. The 2010 Supplemental Bond Declaration provides that the City reserves the right to amend the Master Second Lien Bond Declaration without subsequently seeking the consent of the Owners of the 2010 Series A Bonds to provide for certain matters described below. **By purchasing the 2010 Series A Bonds, the Owners of the 2010 Series A Bonds are deemed to have consented to the proposed amendments described below and in the 2010 Supplemental Bond Declaration attached hereto as Appendix B.**

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

6. Amendments allowing the City to establish subaccounts in the Second Lien Bond Reserve Account that secure multiple Series of Second Lien Bonds.
7. Amendments allowing the City to determine the reserve requirement for subaccounts in the Second Lien Bond Reserve Account, as long as those subaccounts do not secure the 2010 Series A Bonds.
8. Amendments allowing the City to combine subaccounts in the Second Lien Bond Reserve Account, as long as those subaccounts do not secure the 2010 Series A Bonds.
9. Amendments clarifying that the ratings requirement for a Reserve Credit Facility Provider would apply only at the time the Reserve Credit Facility is issued.
10. Amendments clarifying that a Reserve Credit Facility continues to be valued at the amount that is available to be drawn on it unless Net Revenues are below 130% of Combined Annual Debt Service and all ratings on the Reserve Credit Facility Provider and its reinsurers or guarantors are either withdrawn or reduced below investment grade.
11. Amendments specifying that a Reserve Credit Facility shall have no value when the Net Revenues are below 130% of Combined Annual Debt Service, and all ratings on the Reserve Credit Facility Provider and its reinsurers or guarantors are either withdrawn or reduced below investment grade.
12. Amendments allowing the City to replenish a subaccount in the Second Lien Bond Reserve Subaccount over five years, if that subaccount has a deficiency because the Reserve Credit Facility has no value because of circumstances described in Section 11 above.
13. Amendments clarifying that the City may issue additional Second Lien Bonds when a subaccount in the Second Lien Bond Reserve Account contains an amount that is less than its reserve requirement, but only if all required deposits to replenish the subaccount have been made when the Second Lien Bonds are issued.
14. When all First Lien Bonds are paid or defeased, amendments that remove any references to the First Lien Bonds, that replace references to Combined Annual Debt Service with references to Annual Second Lien Bond Debt Service, to change all references to Second Lien Bonds to "First Lien Bonds", and to make related, conforming changes.
15. Amendments conforming related provisions of the Master Second Lien Bond Declaration to the amendments that are authorized by Section 10 and by Section 11 of the Master Second Lien Bond Declaration, and restating the Master Second Lien Bond Declaration to include all of those amendments.

## THE SEWER SYSTEM

The City owns, operates and maintains the sanitary and stormwater collection, transportation, and treatment systems within its boundaries. The service area is located on both sides of the Willamette River, extending approximately 20 miles south of its confluence with the Columbia River. It is generally bounded on the west by low-lying hills paralleling the Willamette River, by other service areas serving the City metropolitan area to the south, by the City of Gresham to the east, and by the Columbia River to the north. The City provides sanitary sewer service to approximately 576,000 people, numerous commercial and industrial facilities, and several wholesale contract customers located adjacent to the City. The following table provides an overview of the Sewer System characteristics:

**Table 4**  
**CITY OF PORTLAND, OREGON**  
**Sewer System Characteristics**

Service Area (acres)	
In City	96,000
Outside City (wholesale)	9,000
Population Served	576,000
Piping in Sewer System (miles)	2,315
Pumping Stations	97
Treatment Capacity (millions of gallons per day)	108.3

Source: Bureau of Environmental Services.

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

### SANITARY AND STORM COLLECTION SYSTEM

Collection sewers transport wastewater from the receiving point (laterals at the curb line) to the point of discharge into the interceptor sewers. Collection sewers comprise most of the footage and economic value of the Sewer System, fronting on most of the property in the City. Older collection sewers carry both storm and sanitary sewage and comprise approximately 860 miles (or about 37 percent) of the system. Collection sewers constructed since 1960 carry sanitary wastes only. The collection system is inspected through the use of closed-circuit TV cameras and cleaned on a routine basis. Sewer System maintenance and repair projects are scheduled according to the results of the inspection program.

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

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

### INTERCEPTOR AND PUMP STATION SYSTEM

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

three times the average dry weather flow, a portion of the sewage flow bypasses the diversion structures and discharges to the Columbia Slough Consolidation Conduit (in the Columbia Slough Watershed) or to the Westside Willamette Combined Sewage Overflow (“CSO”) Tunnel. Diversions will continue to overflow directly to the Willamette River on the Eastside Willamette system until 2011 when they will be captured by the Eastside Willamette CSO Tunnel. (See “REGULATORY AND LEGAL ENVIRONMENT,” herein.)

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

## **SEWAGE TREATMENT PLANTS**

The City’s two sewage treatment plants, the CBWTP and the Tryon Creek Wastewater Treatment Plant (“TCWTP”), are both activated sludge, secondary treatment plants with capacities to treat a minimum of 100 million gallons per day (“mgd”) and 8.3 mgd, respectively, through the secondary treatment system. Dry weather sewage flows to the wastewater treatment facilities receive primary and secondary treatment. Dry weather flows for 2009 equaled 57 mgd at the CBWTP and 4.4 mgd at the TCWTP. Annual average daily flows to both treatment facilities were 69 mgd in 2009 or 64 percent of secondary treatment capacity. Peak secondary treatment capacities at the CBWTP and the TCWTP are 120 mgd and 20 mgd, respectively. Wet weather flows in excess of this amount receive primary treatment and are blended with secondary effluent prior to disinfection and discharge. Enhancements to the secondary treatment system are currently in design and will be constructed by 2013. These enhancements are in the current Capital Improvement Program (“CIP”) and will increase the ability to treat more wet weather flows through the secondary system.

Under Oregon Administrative Rule (“OAR”) 340-045-0015, a National Pollutant Discharge Elimination System (“NPDES”) permit is required for the discharge of treated effluent from each treatment plant. The permits are certified by the Oregon Department of Environmental Quality (“DEQ”), and the City is in compliance with the provisions pertaining to discharge from the treatment plants. The TCWTP’s current permit expired on September 30, 2009. The CBWTP discharge permit expired on October 31, 2002. The permit renewal process for both plants began with an application for renewal to the DEQ approximately six months before expiration. OAR 340-045-0040 allows the treatment plants to continue to operate under the expired permits during the renewal process. The draft permits underwent public review and are currently being reviewed by the Environmental Protection Agency (“EPA”). If the new permits impose stricter limits on wet weather flows receiving primary treatment only, additional investments in secondary treatment capacity would be required. The EPA is considering whether the enhanced level of treatment in current plans provides sufficient effluent water quality or if additional secondary capacity expansion is necessary. Additional secondary capacity may require up to \$140 million of capital investment in new clarifiers and control structures.

Recent projects at the CBWTP have focused on enhancing the plant’s peak primary treatment capacity. These projects include replacement of the headworks, completed in 1996, and the addition of three primary clarifiers, completed in 2001. Additional capacity expansion will be completed by December 2011 in anticipation of increased flows from the CSO control facilities.

The West Side CSO facilities were fully operational on December 1, 2006. The East Side CSO facilities will be completed in December 2011. Peak wet weather flows to the CBWTP will have increased by 60 mgd and 115 mgd for the West Side CSO facilities and East Side CSO facilities, respectively.

The City’s biosolids recycling program meets EPA and DEQ regulations. The City routinely monitors biosolids quality and land application practices and impacts to demonstrate both regulatory compliance and the benefits resulting from solids recycling. Two new biosolids digesters are being constructed at CBWTP to process the increased solids loading to CBWTP since 2006. Biosolids land application at Madison Farm in north central Oregon has been the major focus of the City’s biosolids management program since 1990.

The City manages industrial discharges to the sanitary Sewer System in order to protect the Publicly Owned Treatment Works (“POTW”), protect the sewage and collection systems, protect the health and safety of the POTW workers, prevent POTW interference and pass through, prevent non-compliance of the City’s NPDES permits, and protect the receiving waters. There are currently 183 industries operating under City discharge permits, and compliance files are maintained on approximately 450 industrial users. Periodically, through its ongoing monitoring program, the City may detect discharges to the System that exceed established standards. In these cases, the City initiates a process of notification and enforcement requiring the industry to regain compliance. Lack of compliance by the offending industry can lead to imposition of fines or ultimately to the termination of the industry’s sewer service. The City Code also allows recovery of any damages to the Sewer System that result from impermissible discharges. Ninety-nine percent of samples collected from permitted industries are in compliance.



# **THE BUREAU OF ENVIRONMENTAL SERVICES**

## **BUREAU ORGANIZATION**

The Bureau of Environmental Services (the “Bureau”) is headed by a director who reports to the Commissioner of Public Utilities. The Bureau is responsible for the Sewer System’s operation, maintenance and capital construction. The Bureau is organized into six groups: the Office of the Director (i.e. Regulatory and Public Affairs, and Healthy Working Rivers), the Business Services Group, the Wastewater Group, the Watershed Group, the Engineering Services Group, and Pollution Prevention Services Group. At times, consultants are employed for specific projects, which require expertise or staffing beyond the Bureau’s capability. Certain administrative functions and Sewer System maintenance are provided by other City departments and bureaus on a reimbursable basis. The total budgeted staffing complement for the Bureau in FY 2010-11 stands at 546 full time equivalent employees (“FTEs”) distributed as follows:

- Office of the Director - 29 FTEs (including Office of Healthy Working Rivers)
- Business Services Group - 50 FTEs
- Wastewater Group - 141 FTEs
- Watershed Services Group - 55 FTEs
- Engineering Services Group - 196 FTEs
- Pollution Prevention Services Group – 75 FTEs

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

### **Office of the Director**

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

### **Business Services Group**

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

### **Wastewater Group**

The Wastewater Group is responsible for the operation, maintenance, monitoring and administration of the City’s wastewater and stormwater collection and treatment facilities and related programs. These facilities include the CBWTP and TCWTP, 97 active pumping stations, the sanitary sewage and stormwater collection system, and a wide variety of stormwater detention and treatment facilities, and also the water quality ponds, UICs, and surface drainage systems.

### **Watershed Services Group**

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

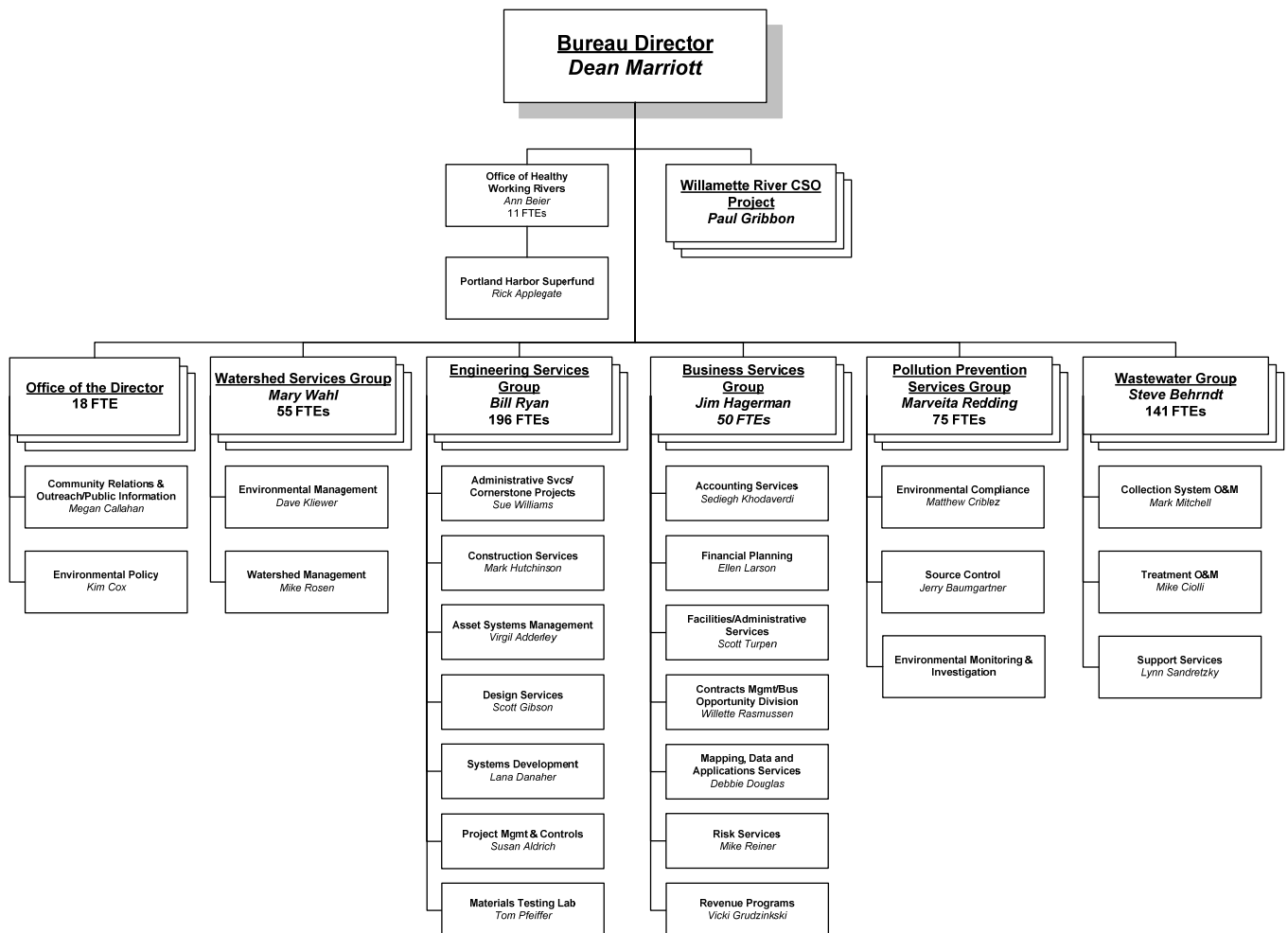
## Engineering Services Group

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

## Pollution Prevention Services Group

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

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



Source: City of Portland, Bureau of Environmental Services.

## **SERVICES PROVIDED BY OTHER CITY BUREAUS**

Services provided to the Bureau by other City bureaus and offices fall into two major categories: overhead and direct. Overhead services include legal, purchasing, central accounting, personnel and payroll services, and are charged to the Bureau based on various workload indicators used to measure consumption of overhead services. FY 2010-11 costs for overhead services are budgeted at \$5.5 million.

Direct services include fleet, printing, internal mail, telephone, electronic services, liability and workers' compensation insurance, and engineering related services such as survey and structural engineering services. Direct services are charged according to actual use. The most significant direct services in terms of budgeted expenditures are sewer maintenance, cleaning, and repair of sanitary and stormwater sewer systems, including the portion of street sweeping services that directly benefit the Sewer System, provided by the City's Bureau of Maintenance. FY 2010-11 costs for direct services are currently budgeted at \$39.2 million. Payments for direct services from other City bureaus are negotiated annually in Interagency Agreements. In the event of failure to reach a satisfactory agreement, the Bureau has the authority to modify these agreements by declining to purchase some of the services provided by other bureaus, by contracting with other suppliers for some services or by internalizing some services provided by other bureaus.

## **UTILITY LICENSE FEE**

The Bureau currently pays \$12.8 million in annual utility license fees to the City's General Fund. Currently, the utility license fee is not subject to regulation by state law and may be raised at the discretion of the City Council. The fee was treated as an Operating Expense through FY 2000-01. Beginning in FY 2001-02, the Utility License Fee has been subordinated to the payment of debt service on the First Lien Bonds and Second Lien Bonds.

On September 1, 2004, the City Council voted to cap utility license fees for the water and sewer utilities at the FY 2004-05 budgeted levels until those levels represent five percent of retail utility revenues. The Bureau's budgeted utility license fee payment will therefore remain at \$12.8 million until that amount represents five percent of utility revenues. After that time, utility license fee payments may grow again, but cannot exceed five percent of utility revenues. This is not forecasted to occur until FY 2012-13. For FY 2010-11, utility license fees payments are estimated to be approximately 5.5 percent of retail utility revenues.

## **MANAGEMENT PERSONNEL**

The following are brief biographies of key Sewer System personnel.

### **Dan Saltzman, Commissioner of Public Utilities**

Mr. Saltzman was elected to the City Council in 1999. In addition to the Bureau, he oversees the Fire and Police Disability and Retirement System, and the Children's Investment Fund. Mr. Saltzman holds a Bachelors of Science degree from Cornell University's School of Civil and Environmental Engineering, and a Master of Science degree from Massachusetts Institute of Technology. Mr. Saltzman served as a staff assistant to Congressman (now Senator) Ron Wyden and spent many years as the principal in an environmental engineering firm. Mr. Saltzman served as Multnomah County Commissioner from 1993-1998 and has served on the Board of Directors for Portland Community College and HOST Community Development.

### **Dean Marriott, Director, Bureau of Environmental Services**

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

**Jim Hagerman, Manager, Business Services Group**

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

**Stephen Behrndt, Manager, Wastewater Group**

Mr. Behrndt has managed the Wastewater Group since 1997, responsible for operation, maintenance and administration of wastewater and stormwater collection and treatment facility and related programs. He has been a manager in the Bureau for 20 years, having previously served as Public Works Superintendent from 1992 to 1997 and Stores Manager from 1990-1992. Mr. Behrndt came to the City in 1990 from the City of Eugene's Water Pollution Control Facility, where he was a manager in the Maintenance Division from 1984 to 1990. Mr. Behrndt holds a Bachelor of Science degree from the University of Oregon.

**Mary Wahl, Manager, Watershed Services Group**

Ms. Wahl came to the Bureau in October of 2000 following 14 years with the DEQ. At the DEQ, she served primarily as Administrator of the Waste Management and Cleanup Division, which combines hazardous waste management, solid waste management, and toxics cleanup programs. At the Bureau, Ms. Wahl manages the Watershed Services Group, including Portland's Endangered Species Act (ESA) program, a Sustainable Stormwater Management program, implementation of Portland's Watershed Management programs, and a Regulatory/Policy Division. She has a Masters in Public Administration from Harvard University, and an undergraduate Education degree from Oregon State University.

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

Mr. Ryan was named Chief Engineer in May 2004. He is responsible for managing and developing the Bureau's CIP and providing CIP design and construction services to the Bureau. Mr. Ryan has over 25 years of engineering experience, with the last 15 devoted to public works. He was the Bureau's Construction Manager from 1999 to 2004. Mr. Ryan is a registered civil and geotechnical engineer in Oregon. He holds a Master of Science degree in Civil Engineering from the University of Florida.

**Marveita Redding, Manager, Pollution Prevention Services Group**

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

## **REGULATORY AND LEGAL ENVIRONMENT**

The City is subject to environmental regulations and statutes administered by the DEQ and the EPA. These include the Clean Water Act (“CWA”), Safe Drinking Water Act (“SDWA”), the Endangered Species Act (“ESA”) and the Comprehensive Environmental Response, Compensation and Liability Act. The exception is ESA, which is managed by the National Oceanic and Atmospheric Administration (“NOAA”), and is not delegated. The EPA has delegated to the DEQ enforcement of the EPA programs that affect the City. The City and the DEQ have agreed to an Amended Stipulation and Final Order to control the water quality impacts of CSOs by 2011. Meeting these and other regulatory and statutory requirements and their associated compliance schedules will require significant investments over the next five years and will have substantial effects on sewer rates and charges. (For estimates of the impacts of these programs, refer to “CAPITAL CONSTRUCTION AND FINANCING PROGRAM – FACTORS AFFECTING SEWER SYSTEM CAPITAL INVESTMENT.”)

### **REGULATORY CONSENT AND COMPLIANCE ORDERS**

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

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

### **ADMINISTRATIVE ORDERS AND OTHER REGULATORY MATTERS AFFECTING THE CSO PROGRAM**

#### **Administrative Orders**

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

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

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

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

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

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

in-three year summer storm event and up to a four-in-one year winter storm event in the Willamette River Basin. The following key milestones are associated with the ASFO:

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

The City has met or is on schedule to meet each of the above major milestones according to the requirements of the ASFO. The City began testing the Westside Willamette CSO facilities in September 2006 and declared the West Side project completely operational by December 1, 2006. This was the final step in eliminating CSO discharges from 16 of the remaining Willamette River outfalls as required in the ASFO. Thus, the City's December 1, 2006, deadline was met. The City has begun building the East Side Willamette CSO facilities and is on target to complete these facilities by December 1, 2011, thereby completing all CSO outfall control commitments.

## **REGULATORY REQUIREMENTS**

### **Water Quality Compliance**

The CWA was passed by Congress in 1972. Section 303 (d) of the CWA requires states every two years to identify those waters "for which existing required pollution controls are not stringent enough to achieve that state's water quality standards," requiring that a Total Maximum Daily Load ("TMDL") be developed. A TMDL is the calculated amount of pollutant a water body can receive and still meet Oregon water quality standards. The DEQ finalized the Willamette Basin TMDL (including mainstem and tributaries) in 2006 after extensive study. TMDLs were developed for temperature, bacteria, and mercury because state water quality standards for these pollutants are often exceeded. As a result of those TMDLs, especially mercury and temperature, every stream has at least one TMDL.

In 1986, the Northwest Environmental Defense Center brought suit against the EPA for not enforcing requirements of the CWA on the Tualatin River and several other surface waters within the State of Oregon. The lawsuit resulted in a consent decree under which all jurisdictions within the Tualatin Basin and the DEQ must develop and implement plans to control nutrient sources and comply with the Tualatin Basin phosphorus TMDL. The City has approximately 8,000 acres of land within the Tualatin River drainage basin. As a jurisdiction within the basin, the City was required to comply with the TMDL for phosphorus. In 2001, The DEQ revised the phosphorus TMDL and also established new TMDLs for bacteria, dissolved oxygen and temperature in the Tualatin Basin. The City, as a jurisdiction in the basin, is required to comply with the new TMDLs and as such worked with the DEQ and other designated management agencies in the basin to develop and implement TMDL Implementation Plans.

The EPA consent decree also required the DEQ to develop TMDLs for ten other water quality limited stream segments, including the Columbia Slough, Johnson Creek, and other tributaries of the Willamette River located within the City. The water quality of the Columbia Slough is impacted by municipal stormwater discharges, industrial discharges, and hydraulic modifications. On December 13, 1990, the DEQ issued draft TMDLs for phosphorus and bacteria in the Columbia Slough for public comment. Those draft TMDLs were not implemented at that time. On April 2, 1992, the City entered into an agreement with the DEQ committing the City to a detailed study of the Columbia Slough. The agreement further required that the City comply with established load allocations and waste load allocations within ten years. In 2002, the DEQ added iron and manganese in the Columbia Slough to the 303(d) list.

In response to these agreements, the City has conducted regular monitoring of in-stream water quality and flow of the Columbia Slough for several years. The data from that monitoring were used to prepare a Waterbody Assessment report in 1995. Based on that report and other information, the DEQ prepared TMDLs for bacteria, dissolved oxygen, toxic pollutants and eutrophication that were approved by the EPA on November 25, 1998. A temperature TMDL for the Columbia Slough was finalized in 2006 as part of the Willamette River TMDLs. Implementation of the approved TMDLs, exclusive of temperature which will have its own implementation plan, is required as part of the City's NPDES municipal stormwater permit.

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

The City met all the deadlines specified in the 1993 order. Because of the widespread but low-level nature of contamination throughout the Slough, typical of non-point source pollution in an urban environment, the City and the DEQ have developed a watershed approach to the sediment issues in the Columbia Slough that is described in the PWMP. The 1993 order was replaced with an Intergovernmental Agreement in 2006 (the "Watershed Action Plan") between the City and the DEQ which emphasizes natural attenuation and source control as the principal means of managing sediment issues in the Slough.

Johnson Creek was placed on the 303(d) list in 1998 as water quality limited for temperature, bacteria, DDT, and dieldrin. In 2001, the DEQ started preparing a TMDL for the four constituents listed in 1998. With the assistance of the U.S. Geological Survey ("USGS") and the Johnson Creek Inter-jurisdictional Committee, monitoring events were coordinated, available data was compiled, and a draft TMDL was prepared and peer reviewed. In 2002, PCBs and polycyclic aromatic hydrocarbons were added to this list. The Johnson Creek TMDL is part of the Willamette Basin TMDL finalized in 2006. The implementation of the Johnson Creek TMDLs, exclusive of the temperature TMDL that will have its own implementation plan, will be part of the City's NPDES municipal stormwater permit.

Tryon Creek is also on the 303 (d) list for temperature, the DEQ finalized the Tryon Temperature TMDL in 2006 as part of the Willamette River TMDL process. Tryon Creek is not on the 303 (d) list for any other parameter.

### **National Pollutant Discharge Elimination System Municipal Storm Sewer System Permit ("NPDES")**

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

In June 2004, challenges by third parties prompted the DEQ to begin reconsideration of the permit. As a result of that reconsideration, the DEQ issued a revised permit in July 2005. In May 2006, the City and its co-permittees submitted revised Stormwater Management Plans to the DEQ to implement the requirements of the permit. In accordance with permit requirements, the Portland co-permittees submitted a permit renewal application to the DEQ on September 2, 2008. The DEQ administratively extended the permit pending reissuance in mid to late 2010. The third party legal challenge to the modified permit is still pending. The third party appeal to the State of Oregon Court of Appeals was heard in May 2009, but the Court has not yet issued a ruling.

The stormwater management program will impact operating programs as well as the capital program. Currently identified capital costs deemed necessary to comply with the NPDES stormwater permit are included within the Surface Water Management Capital Improvement Program. The operating costs of permit-related programs, distributed across bureaus and other City programs (for

example, street sweeping) exceeds \$500,000 per year and is expected to increase in future years. Capital cost impacts are approximately \$5 million over the FY 2010-11 through FY 2014-15 five-year forecast interval.

### **Underground Injection Control Water Pollution Control Facility Permit**

The DEQ issued the City a Water Pollution Control Facility (“WPCF”) permit in June 2005 (DEQ Permit Number 102830). The WPCF permit establishes the construction, operation and maintenance requirements the City must implement to protect groundwater as a drinking water resource. The City developed a UIC Management Plan that describes the overall UIC Program and the activities the City will implement throughout the WPCF permit term (June 1, 2005 – May 31, 2015). The City currently owns and operates approximately 9,000 UICs that collect stormwater from public rights-of-way and discharge it to the subsurface. UICs are most prevalent in the eastern portion of the City, where subsurface soils support greater stormwater drainage and infiltration rates. For many areas east of the Willamette River, UICs are the only form of stormwater disposal available. UICs are also an essential element of a comprehensive watershed strategy to use stormwater as a resource by infiltrating it back into the ground and preclude the need to install or increase the capacity of piped stormwater infrastructure that eventually discharges into local surface water bodies, including Johnson Creek, the Columbia Slough, and the Willamette River.

Although the UIC management program has many stormwater management actions in common with the NPDES stormwater permit program, developing and implementing the new program has additional impacts on operating programs as well as the capital program. The Bureau’s operating costs of UIC permit implementation are approximately \$1.2 million in FY 2010-11, primarily for stormwater discharge monitoring, system inventory and management, and program implementation. Implementation costs in future years are expected to remain at similar levels. Additional costs are distributed across other City Bureaus and other City programs (for example, UIC system assessment updates, monitoring, system maintenance).

Currently identified capital costs, such as identifying and implementing corrective actions for non-compliant UICs, are included within the Surface Water Management CIP. The permit requires Category 2 corrective actions for 29 UICs to be completed by November 1, 2010 and Category 3 corrective actions for 191 UICs to be completed by the expiration of the current permit in May 2015 (extended from July 2011 by Permit Modification #1, effective December 30, 2009). Capital cost impacts are approximately \$1.8 million in FY 2010-11, primarily for Category 2 corrective actions. Capital costs impacts are estimated to be approximately \$10.7 million for Category 3 corrective actions over the FY 2010-11 through FY 2014-15 five-year forecast interval.

### **Endangered Species Act Requirements**

The ESA defines a “species” to include any distinct population segment of any species of vertebrate fish or wildlife. For Pacific salmon, National Marine Fisheries Service (NOAA Fisheries) considers an Evolutionarily Significant Unit (“ESU”) a “species” under the ESA. For Pacific steelhead, NOAA Fisheries has delineated Distinct Population Segments (“DPSs”) for consideration as “species” under the ESA.

Updated final listing determinations for 16 salmon species were issued on June 28, 2005 (70 FR 37160), and updated final listing determinations for 10 West Coast steelhead species were issued on January 5, 2006 (71 FR 834). These include eight ESUs of salmon and five DPSs of steelhead that may use or migrate through watercourses in the Portland area. Seven of the eight ESUs of salmon are listed as threatened.

The salmonids from four of these ESUs or DPSs rear, migrate and spawn in various watercourses in the Portland area, including the Columbia River, Columbia Slough, Willamette River, Johnson Creek, Tryon Creek, and several other smaller westside streams. The other ESUs or DPSs of salmon and steelhead migrate past Portland on the way to and from ESU or DPS areas in the upper and middle Willamette River, Columbia River and Snake River. The basic requirement of the ESA is to avoid harming or harassing the listed species or adversely modifying their critical habitat (including physical, chemical, and biological modifications) and in turn to work to recover these species through the development and implementation of recovery plans.

In September 2005, NOAA Fisheries issued a final rule on the designation of critical habitat for the salmon ESUs and steelhead DPSs (50 CFR Part 226). The critical habitat designations require that City projects not “adversely affect” the designated areas unless adequate mitigation is conducted. The designation is enforced as part of individual projects that require permits.

The City adopted a comprehensive framework for developing a Portland-specific recovery plan for these species. The framework was reviewed and endorsed by independent peer reviewers. The PWMP uses this framework as its scientific foundation. The plan provides the background information and recommendations for improved watershed health that guides the City’s fish protection and serves as the basis for a formal local recovery plan. The City Council has passed a resolution stating its intention to have a recovery



plan reviewed and approved by the NOAA Fisheries. The City is currently working with the State of Oregon to draft that recovery plan and NOAA Fisheries has provided written support for the City's ongoing ESA-related activities.

The City also completed an assessment of its activities that might affect salmon or steelhead and their habitat and has implemented work plans to improve or discontinue these activities. Formal and informal negotiations with NOAA Fisheries are underway on a number of City activities, including the submission of an ESA Section 4(d) take avoidance program for critical aspects of the City's stormwater management program. The City also consults frequently on culvert replacement, in-stream sewer pipe maintenance and upgrades, streambank treatment, riparian protection zones, habitat assessment, erosion control, and monitoring and evaluation. The City's road maintenance procedures and policies and key portions of the City's integrated pest management program related to stream and riparian areas were recognized as consistent with the ESA in NOAA Fisheries' final rules.

The City is also the only non-federal entity in the nation to have a formal agreement with NOAA Fisheries, the U.S. Army Corps of Engineers, the USFWS and a range of related state and local agencies that streamlines permit requirements associated with the ESA and the CWA. The agreement helps ensure that City capital projects that trigger ESA requirements move quickly and efficiently through the regulatory process. The U.S. Government Accountability Office highlighted the agreement in a report to Congress on implementation of the ESA.

Because recovery plans are not complete, it is unclear what the exact requirements and associated financial obligations will be move beyond the listings. At a minimum there will be costs associated with more complicated permitting issues. At a maximum there will be additional costs from new facilities and revised operating procedures that will help address the water quality and habitat issues under the Bureau's charge. Funds for the ESA response were included in the FY 2010-11 operating budget. Because a variety of City activities affect listed species, funds for the ESA response also come from a range of other City bureaus. Going forward, funding for any capital projects or additional operating requirements will have to be budgeted as needs are identified.

### **Portland Harbor Sediments**

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

The Portland Harbor Superfund investigation is currently focused on a stretch of the Willamette River from River Mile 2 to River Mile 12. The City is one of the potentially responsible parties funding and conducting an investigation of contaminated sediments, assessing cleanup options and planning for restoration in this section of the river. The City's potential liabilities are associated with stormwater discharges and with some City-owned upland properties. The City operates stormwater or combined sewer overflow outfalls within the Portland Harbor area. The outfalls drain stormwater from City rights-of-way and from privately owned industrial, commercial, residential, and vacant lands. When it rains, stormwater can transport soil (dust, sediment, and debris), metals, oil, grease, bacteria, and chemicals to the river. These materials may impair water quality and impact Willamette River sediments.

The DEQ and the City are cooperating to assess whether discharges to the stormwater collection system are a significant source of sediment contamination. The City is working with the DEQ to identify and reduce sources of contamination that are conveyed to the Willamette River through the stormwater outfalls. Information on current and past land uses within the drainage basin of each outfall will be used to help identify potential upland sources of contaminants.

The City's involvement with the Superfund site, which includes the anticipated cost for management, technical and legal staffing; sediment investigation; investigation of the outfalls; assessment of source control measures; and early natural resource projects, is currently forecast at approximately \$18.6 million over the next five years. The EPA Record of Decision for the Superfund site is expected no earlier than late 2011. The total costs associated with the cleanup and restoration activities and the City's ultimate share of those costs are unknown and the City cannot at this time predict the financial impact on the Sewer System. However, the City is taking a leading role in efforts to make the cleanup efficient and effective. The City is taking a proactive stance in cooperating with EPA's sediment assessment work and developing an outfall evaluation and source control plan in cooperation with the DEQ. Cleanup and restoration work will build upon the Bureau's implementation of the PWMP. The City is beginning to assess potential restoration activities with the Natural Resource Trustees, and is working with the U.S. Army Corps of Engineers on a comprehensive plan that could result in substantial funding for overall Lower Willamette natural resources restoration under the Water Resources Development Act.

## CAPITAL CONSTRUCTION AND FINANCING PROGRAM

### CAPITAL PLANNING PROCESS

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

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

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

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

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

### FACTORS AFFECTING SEWER SYSTEM CAPITAL INVESTMENT

Two major factors will guide capital investment in the Sewer System for the next ten years. First, the Bureau faces regulatory requirements driven by the federal Water Quality Act amendments of 1987. Rule-makings, administrative orders and judicial orders at the state and federal level have imposed new service requirements on the City, requiring additions to or improvements of sewage treatment and transportation facilities. The City has agreed to a schedule for meeting applicable water quality standards at all combined sewer outfalls under the ASFO approved by the EQC. (See "REGULATORY AND LEGAL ENVIRONMENT -- ADMINISTRATIVE ORDERS AND OTHER REGULATORY MATTERS AFFECTING THE CSO PROGRAM.") Costs to date through the end of FY 2008-09 total \$1.1 billion. Remaining direct costs to comply fully with the ASFO are estimated to be \$279.0 million from FY 2009-10 through FY 2011-12.

Second, there is a continuing need for investments to improve the maintenance and reliability of the existing facilities. As major facilities within the Sewer System begin showing their age, major reconstruction and maintenance projects will need to be undertaken. Forecast capital improvement expenditures within the Bureau's Maintenance and Reliability Program total \$278.95 million over the next five years.

## CAPITAL IMPROVEMENT PROGRAM RESOURCES AND REQUIREMENTS

The City forecasts capital requirements for the Sewer System of approximately \$688 million (shown in Table 5 as cash transfers from the Sewer System Operating Fund and Capitalized Overhead) during the forecast period from FY 2009-10 through FY 2014-15. A brief description of the resources required to finance these requirements follows.

- Fees, Charges, and Permits. This source of funding includes an estimate of reimbursements for engineering, administration, and construction management services charged to local improvement districts and for permit sewer construction. Also included are anticipated revenues from construction and/or engineering services for projects initiated by other local government agencies such as the City's Department of Transportation and The Port of Portland.
- Line and Branch Charges. Charges in lieu of assessment will be used to support CIP outlays. Line and branch charges are received in the form of cash and in the form of proceeds from special assessment bonds issued for property owners who elect to finance their line and branch charges.
- System Development Charges. System Development Charges ("SDCs") are equity charges applied to properties at the time they connect to the Sewer System. SDCs are based upon the total cost of major sewer facilities, less grant revenues, divided by System capacity. SDC revenues support CIP projects and debt service.
- Current Income. Current Sewer System net income from service fees and charges will also be used to fund CIP outlays. The availability of current income to fund CIP expenditures is the result of meeting debt service coverage requirements on outstanding bonds. Cash contributions to capital construction are projected to total \$100.4 million over the five-year forecast period.
- Bond Proceeds. Proceeds from the sale of Sewer System revenue bonds will support the CIP. Debt service requirements for future bond sales have been forecast assuming a 25-year debt amortization schedule through FY 2011-12, 20-years thereafter, and level debt service for each series of bonds.
- Investment Income. Investment or interest income is earned on all Sewer System funds administered by the City Treasurer. Any investment income earned on balances within Sewer System funds helps offset required increases in sewer user fees.

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

**Table 5**  
**CITY OF PORTLAND, OREGON**  
**Sewer System Construction Fund**  
**Forecast Sources and Uses of Funds**  
**and Estimated Changes in Fund Balances (1)**

Fiscal Year	Projected 2009-10	Forecast 2010-11	Forecast 2011-12	Forecast 2012-13	Forecast 2013-14	Forecast 2014-15
(In thousands of dollars)						
<b>RESOURCES:</b>						
Fees & Charges, Permits	\$279	\$394	\$451	\$456	\$461	\$465
Line & Branch Charges (2)	235	300	687	921	587	593
Cash Transfers In -						
Sewer System Operating Fund (3)	3,515	16,031	15,230	17,856	23,140	28,155
Grants and State Loans	0	0	0	0	0	0
Bond Proceeds (Sewer Revenue Bonds)	0	449,991	137,722	0	184,243	0
Bond Proceeds (Limited Tax Improvement Bonds)	2,814	1,800	1,900	2,000	2,100	2,200
Note Proceeds (Line of Credit)	160,000	0	0	0	0	0
Business Energy Tax Credit (4)	3,023	0	0	0	0	0
Interest On Investments	667	1,200	1,743	1,693	2,319	1,765
<b>TOTAL RESOURCES</b>	<b>170,532</b>	<b>469,716</b>	<b>157,733</b>	<b>22,927</b>	<b>212,850</b>	<b>33,178</b>
<b>REQUIREMENTS:</b>						
Cash Transfers Out:						
Sewer System Operating Fund (5) (6)	185,890	249,273	91,283	87,749	102,513	107,800
Capitalized Overhead (to Operating Fund)	9,394	9,574	9,757	9,943	10,134	10,327
Retired Notes / Refundings	0	160,800	0	0	0	0
Sewer System Debt Redemption Fund (7)	0	29,639	10,912	0	16,423	0
Miscellaneous	17	2,742	660	0	820	0
<b>TOTAL REQUIREMENTS</b>	<b>195,301</b>	<b>452,028</b>	<b>112,612</b>	<b>97,692</b>	<b>129,889</b>	<b>118,127</b>
<b>RESOURCES OVER (UNDER) REQUIREMENTS</b>	<b>(24,770)</b>	<b>17,688</b>	<b>45,121</b>	<b>(74,765)</b>	<b>82,961</b>	<b>(84,950)</b>
<b>BEGINNING FUND BALANCE</b>	<b>72,728</b>	<b>47,958</b>	<b>65,646</b>	<b>110,767</b>	<b>36,001</b>	<b>118,962</b>
<b>ENDING FUND BALANCE</b>	<b>\$47,958</b>	<b>\$65,646</b>	<b>\$110,767</b>	<b>\$36,001</b>	<b>\$118,962</b>	<b>\$34,012</b>

Notes:

- (1) Totals may not foot due to rounding.
- (2) Increases in FY 2011-12 and FY2012-13 reflect the required connections resulting from recent sewer extension projects, for which properties are required to pay fees and connect within three years of sewer availability.
- (3) Represents cash financing of construction activity from sewer system revenues.
- (4) Represents sale of energy tax credits associated with building the combined heat and power system at the CBWTP.
- (5) Expenditures for the capital program occur in the Operating Fund and are subsequently reimbursed from the Construction Fund.
- (6) Reductions in Operating Fund Transfers between FY 2010-11 and 2011-12 reflect completion of the CSO program.
- (7) Transfer of bond proceeds to cash-funded debt service reserves.

Source: Bureau of Environmental Services.

Planned CIP outlays (excluding capitalized overhead) total \$639 million over the five-year forecast period. The following table shows the construction costs estimated for the FY 2010-11 through FY 2014-15 forecast period by program and by major expense type.

**Table 6**  
**CITY OF PORTLAND, OREGON**  
**Sewer System**  
**Forecast Capital Improvement Program Costs**  
**(excluding fund balances and cash transfers)**

Fiscal Year	Forecast 2010-11	Forecast 2011-12	Forecast 2012-13	Forecast 2013-14	Forecast 2014-15	<b>5-Year Total</b>
(In thousands of dollars)						
<b><u>SYSTEM PROGRAM</u></b>						
Sewage Treatment Systems	\$27,566	\$24,767	\$22,132	\$10,528	\$13,260	\$98,254
Maintenance & Reliability	48,978	28,810	47,565	70,397	74,779	270,530
Surface Water Management	22,679	15,342	15,476	16,924	13,497	83,918
Combined Sewer Overflow	139,802	19,835	0	0	0	159,637
System Development	10,247	2,529	2,575	4,664	6,264	26,279
<b>TOTAL BY SYSTEM PROGRAMS</b>	<b>\$249,273</b>	<b>\$91,283</b>	<b>\$87,749</b>	<b>\$102,513</b>	<b>\$107,800</b>	<b>\$638,618</b>

Notes:

(1) Totals may not foot due to rounding.

Source: Bureau of Environmental Services.

## **FINANCIAL POLICIES AND PLANNING STANDARDS**

### **FIVE YEAR FINANCIAL PLAN**

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

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

### **FINANCIAL OPERATIONS POLICIES**

#### **Ending Fund Balances**

The Bureau maintains a financial planning policy that the combined ending fund balances within the Sewer System Operating Fund and the Rate Stabilization Fund must be equal to or greater than ten percent of each year's Operating Expenses, plus any required debt service reserves. For FY 2009-10, the minimum combined ending fund balance would be \$10.3 million, which is ten percent of Operating Expenses. The Bureau had been building fund balances in the Rate Stabilization Fund through FY 2007-08 to smooth future rate increases from increased debt service. These fund balances will be drawn down through FY 2012-13, when combined fund balances are forecast to return to the minimum planning policy level of ten percent of operating expenses. In addition, as part of the Bureau's commitment to sound financial management, the Sewer System Operating Fund holds another \$200,000 reserve for State Revolving Fund loans currently totaling \$26.7 million.

#### **Use of Rate Stabilization Fund**

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

### **POLICIES AND PLANS AFFECTING BOND ISSUANCE**

#### **Debt Service Coverage**

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

## **Financial Policies Relating to Variable Rate Obligations**

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

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

## **CITY FINANCIAL AND OPERATING INFORMATION**

*In conformance with SEC Rule 15c2-12, as amended (17 CFR Part 240, § 240.15c2-12) (the “Rule”), the City will provide annually the information presented in this section entitled “CITY FINANCIAL AND OPERATING INFORMATION” and the next section entitled “SEWER SYSTEM FINANCIAL AND OPERATING INFORMATION” to EMMA, so long as it is approved by the Municipal Securities Rulemaking Board. (See Appendix E, “Continuing Disclosure Certificate” herein.)*

### **OVERVIEW OF FINANCIAL OPERATIONS**

#### **Basis of Accounting**

The governmental fund types, expendable trust funds, and agency funds are maintained on the modified accrual basis of accounting. The accrual basis of accounting is used for all enterprise funds. The City’s accounting practices conform to generally accepted accounting principles as interpreted by the Governmental Accounting Standards Board (the “GASB”).

#### **Fiscal Year**

July 1 to June 30.

#### **Audits**

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

KPMG LLP conducted audits of the financial statements of the City of Portland and related entities from FY 1995-96 through FY 2001-02. Moss Adams LLP performed auditing services for FY 2002-03 through FY 2009-10.

A complete copy of the City’s FY 2008-09 audit is available on the City’s web site at <http://www.portlandonline.com/omf/index.cfm?c=51731&a=279250>. 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.

#### **Financial Reporting**

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

### **CITY 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 is provided to the City Council at the beginning of the budget process in December, which serves as the basis for determining resources available for budgeting. Major City bureaus generally prepare five-year financial plans and Capital Improvement Plans, which are typically required to be provided to the City Council when budget requests are submitted.

Bureau budget requests are reviewed by Council members and community advisors who solicit further public comment and make recommendations to the Mayor. The Mayor then develops a Proposed Budget that addresses City Council priorities, public input,



and balancing requirements. Following presentation of the Proposed Budget, one or more community hearings are scheduled wherein public testimony is taken. A budget summary and notice of hearing are published prior to the hearings. The City Council, sitting as the Budget Committee, considers the testimony from the community and can alter the budget proposal before voting to approve the budget.

The 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.

## **INSURANCE**

The City is self-insured for workers' compensation, general liability claims and certain employees' medical coverage in internal service funds. Per ORS 30.270(1)(b)(c), general and fleet liability claims are capped. 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 0.80 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 2009, Mercer released an interim actuarial valuation for the City as of December 31, 2008 (the "2008 Interim City Report"), which included the City's share of the System's actuarial accrued liability as of December 31, 2008 and estimated 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. 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 2008 Interim City Report.

**Table 7**  
**CITY OF PORTLAND, OREGON**  
**Valuation Results for 2007 and 2008**

	<b>2007</b>	<b>2008</b>
Allocated Pooled T1/T2 UAL/ (surplus)	(\$221,774,371)	\$256,882,860
Allocated Pooled OPSRP UAL/ (surplus)	(2,425,248)	2,358,563
Net unfunded pension actuarial accrued liability/(surplus)	(\$224,199,619)	\$259,241,423

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, 12/31/08 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 21 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. Investment returns during calendar year 2008 have been particularly volatile, and between June 30, 2008 and December 31, 2008, the market value of assets in the OPERF decreased from approximately \$60.7 billion to approximately \$45.8 billion.

#### **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 2008 Interim City Report includes estimated employer contribution rates for the 2011-2013 biennium. However, the 2008 Interim City Report will not affect the City's current or its 2011-2013 employer contribution rates, as only valuations as of the end of each odd-numbered year are used by the PERS Board to determine annual required employer contribution rates.

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

**Table 8**  
**CITY OF PORTLAND, OREGON**  
**Current Employer Contribution Rates and Advisory Rates**  
**(Percentage of Covered Payroll)**

	<b>Current Rates 2009-2011</b>			<b>Advisory Rates 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%	10.58%	9.61%	12.32%

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, 12/31/08 Valuation Report prepared by Mercer Human Resource Consulting.

Currently, one percent of covered payroll for the three pension benefit programs is approximately: \$2,011,218 million for T1/T2 Pension Programs; \$713,223 for OPSRP general services; and \$87,660 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 the outcome of litigation relating to legislative change and PERS Board action.

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 8 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 \$287.5 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**

The following discussion pertains to the City's Fire and Police Disability and Retirement ("FPDR") Fund. The Net Revenues of the Sewer System may not be used to address obligations of the FPDR Plan as described below.

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 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 will be 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' approved job-related injuries and illnesses. 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. Claims for these 12 cancers may be made up to seven years after employment ends. (See OTHER POST-EMPLOYMENT RETIREMENT BENEFITS ("OPEB") below.)

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 2009-10 levy of \$114,980,456 required a tax rate of \$2.6259 per \$1,000 of assessed property value, or approximately \$1.29 per \$1,000 of 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, 2008. 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 probability level starting in 2024.

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, 2008, valuation from 6.04 percent to 4.50 percent. The impact of this change in estimate increased the unfunded actuarial liability by \$466 million. Subsequently, the City's actuary rolled forward the July 1, 2008 valuation to estimate that the unfunded actuarial liability of the FPDR Fund was \$2.3 billion as of June 30, 2009. The June 30, 2009 roll-forward added an additional \$63 million.

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

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

### **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 2008 City Interim Report, the City's allocated share of the RHIA program's UAL is \$11,040,792 as of December 31 2008.

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 2008 City Interim Report, the City's contribution rates for fiscal years 2009-2011 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, 2007 (the date of the most recent actuarial valuation), is estimated to be \$98,027,683 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, 2009.

For fiscal year 2008, the annual required contribution (the “ARC”) of the employer to be recognized as the annual employer OPEB cost is estimated to be \$10,934,810 on an EAN-Service basis. For fiscal year ended June 30, 2009, the City benefits paid on behalf of retirees exceeded the premiums they paid by \$2,813,269. The City has elected to not pre-fund the fiscal year 2008 employer’s annual required contribution to the plan (ARC) of \$10,934,810. The amount unfunded in fiscal year 2009 is \$17,050,959, which is the OPEB obligation from the beginning of the fiscal year, plus the ARC for FY 2008-09, less payments made in relation to the FY 2008-09 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.

### **Other Post-Employment Benefits**

The City’s FPDR Fund pays medical and hospital expenses for retired police officers and firefighters for approved service connected or occupational injuries or illnesses.

The City’s annual OPEB cost is calculated based on the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of 30 years. In the July 1, 2008 actuarial valuation (the date of the most recent actuarial valuation), the attained age normal actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return and an annual healthcare cost trend rate of 4.5 to 10.05 percent for medical and prescription costs. The UAAL is being amortized over 30 years using the level dollar method. The unfunded actuarial accrued liability of the plan as of July 1, 2008 was \$20,308,278. Actuarial valuations for FPDR OPEB are undertaken every two years. The next report is scheduled to be issued in the fall of 2010.

The disability payments for retired police officers and firefighters are paid through the City’s FPDR Fund, which operates on the pay-as-you-go basis. Benefits paid during the fiscal year ended June 30, 2009, totaled \$328,656.

## **SEWER SYSTEM FINANCIAL AND OPERATING INFORMATION**

### **FUND ACCOUNTING SYSTEM**

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

#### **Sewer System Operating Fund**

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

#### **Sewer System Construction Fund**

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

#### **Sewer System Debt Redemption Fund**

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

#### **Sewer System Rate Stabilization Fund**

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

#### **Environmental Remediation Fund**

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

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

### **HISTORICAL REVENUES AND EXPENDITURES**

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

**Table 9**  
**CITY OF PORTLAND, OREGON**  
**Sewer System**  
**Historical Operating Results (1)**

Fiscal Year	2004-05	2005-06	2006-07	2007-08	2008-09
(In thousands of dollars, except for debt service coverage)					
<b>GROSS REVENUES (1)</b>					
Total Operating Revenues (2)	\$175,716	\$187,302	\$222,210	\$209,621	\$215,169
Interest Earnings	3,531	6,060	13,757	8,231	7,287
System Development Charges	9,361	12,464	11,099	11,043	7,791
Cash Transfers In -					
Rate Stabilization Fund (3)	0	0	0	118	10,000
Other Funds	3,164	2,946	847	923	1,331
<b>TOTAL GROSS REVENUES</b>	<b>\$191,772</b>	<b>\$208,771</b>	<b>\$247,913</b>	<b>\$229,937</b>	<b>\$241,578</b>
<b>OPERATING EXPENSES</b>					
Operating Expenses (4)	\$72,072	\$72,221	\$79,469	\$81,478	\$84,871
Cash Transfers Out -					
Rate Stabilization Fund (3)	6,100	23,000	7,000	17,000	0
<b>TOTAL OPERATING EXPENSES</b>	<b>\$78,172</b>	<b>\$95,221</b>	<b>\$86,469</b>	<b>\$98,478</b>	<b>\$84,871</b>
<b>NET REVENUES</b>	<b>\$113,600</b>	<b>\$113,551</b>	<b>\$161,444</b>	<b>\$131,459</b>	<b>\$156,707</b>
<b>DEBT SERVICE</b>					
First Lien Bonds	\$53,447	\$61,932	\$74,390	\$74,854	\$90,026
Second Lien Bonds (5)	\$12,967	\$14,258	\$22,324	\$22,749	\$29,598
<b>TOTAL DEBT SERVICE</b>	<b>\$66,414</b>	<b>\$76,190</b>	<b>\$96,714</b>	<b>\$97,603</b>	<b>\$119,624</b>
<b>DEBT SERVICE COVERAGE (6)</b>					
<u>With Rate Stabilization Transfers</u>					
First Lien Bonds	2.13x	1.83x	2.17x	1.76x	1.74x
First and Second Lien Bonds	1.71x	1.49x	1.67x	1.35x	1.31x
<u>Without Rate Stabilization Transfers</u>					
First Lien Bonds	2.24x	2.20x	2.26x	2.00x	1.63x
First and Second Lien Bonds	1.80x	1.79x	1.74x	1.53x	1.23x

Notes:

- (1) As defined in the First Lien Bond Ordinance.
- (2) FY 2006-07 Operating Revenues include a one-time accrual of \$17.4 million to bring billing system revenues to full accrual accounting basis.
- (3) Transfers from the Rate Stabilization Fund are used to balance coverage to the planning standard. (See "FINANCIAL POLICIES AND PLANNING STANDARDS – Use of Rate Stabilization Fund.")
- (4) Excluding depreciation expense.
- (5) The interest rate on second lien variable rate bonds is calculated using the Estimated Average Interest Rate as defined in the Master Second Lien Sewer System Revenue Bond Declaration and differs from the actual interest payments. All variable rate bonds were refunded on April 10, 2008.
- (6) The debt service coverage shown may differ slightly than what has been published previously in the City's Comprehensive Annual Financial Reports as the result of corrections to previous calculations. None of the corrections had a significant impact on coverages.

Source: Bureau of Environmental Services.



## **USER CHARGE BILLING AND COLLECTION SYSTEM**

### **Ratemaking and Authorization**

Section 11-302 of the City Charter authorizes the City Council to fix fees and charges for connection to and use of the Sewer System. Sewer user fees and connection charges are formally reviewed every year by the Bureau. Rates required to support proposed activities and meet all obligations to bondholders under the Ordinance are submitted annually by the Director of the Bureau to the City Council for review and approval. No governmental approval, other than the City Council's, is required. The City Council approved an average increase of approximately 6.35 percent to fees and charges for FY 2010-11 in May 2010. Over the last 20 years, rate increases have averaged 8.4 percent annually. The largest percentage increases occurred in FY 1991-92 when average monthly residential bills rose 24 percent, from \$11.40 to \$14.15, and 22 percent the following year, to \$17.20 per month.

### **Billings and Collections**

In February 2005 the billing and collection services for the City's sewer, stormwater and water systems were transferred to the Office of Management and Finance ("OMF") in conjunction with the implementation of the City's new Cayenta Utility Billing System. In September 2005 these functions along with licenses and liens were consolidated into the newly-created Revenue Bureau within OMF. Billing and collection services were transferred back to the Water Bureau on December 14, 2006 after successful implementation of the new billing system. Operation and maintenance of the Cayenta Utility Billing System software remained with the Revenue Bureau.

As of April 20, 2010, Sewer System billings and collection services for retail customers, provided by the City's Revenue Bureau, are on a quarterly cycle for approximately 167,365 accounts, a bimonthly cycle for approximately 5,414 accounts, and on a monthly basis for 5,417 large user accounts. Bills sent to customers include separate line items for sewer, stormwater, and water services.

As of January 1, 2010, there were 5,571 accounts receiving water from the Rockwood Water People's Utility District, or the Lorna Water District. Since they are not City water customers, there is no water shutoff option for collection of delinquent sewer bills for these customers. Past due balances currently total approximately \$317,000 for this group, approximately four percent of total sewer and stormwater past due balances. Liens have been used for owner-occupied single family properties in the past.

Wholesale customers are billed at various times during a fiscal year ranging from bi-monthly to quarterly. As of June 30, 2010, no wholesale customer was delinquent with respect to billed charges.

### **Rate Reform**

To reflect the contributions to stormwater management made by individuals who install stormwater facilities on site, the City Council directed the Bureau to develop a discount program for stormwater charges. That program, referred to as the Clean River Rewards Program, was implemented on October 30, 2006. It provides for up to a 35 percent discount on the stormwater portion of the bill for customers who manage all stormwater on-site. The remaining 65 percent of the stormwater charge, representing costs associated with public rights of way, is not subject to discount. Owing to delays in implementing the program, the City Council determined that customers who apply for and receive discounts during the first twelve months of the program should be granted the discounts for a retroactive period of one year.

In the 45 months since the Clean River Rewards Program was implemented, approximately 34,500 customers have registered for and are receiving discounts on their stormwater bills, approximately 19 percent of the total customer base. New registrations are occurring at a rate of approximately 50 to 75 per week. Funding is provided by adjusting rates for all classes of customers upward to offset the revenue reductions from the stormwater discount program. Total sewer revenue redistribution from low-income discount rates is estimated at approximately \$4.0 million for the current fiscal year.

### **Low Income Discounts**

The City Council has expressed concern regarding the cost impacts of water and sewer bills to low-income households. In May 1997, after twelve months of research and analysis, the City Council approved an expanded version of the existing low-income assistance program, which was implemented July 1, 1997. Program enhancements included extending eligibility to multifamily customers paying their own water/sewer bills, no charge for monthly billing for residential accounts (normally billed quarterly), enhanced assistance for leak repair, a program coordinator to oversee increased marketing efforts, and enhanced accessibility. The bill discount is 50 percent of a typical low-income customer bill, which lowers sewer bills for eligible residential households by

approximately \$25.57 per month or \$303.24 per year for the current fiscal year. Funding is provided by adjusting rates for all classes of customers upward to offset the revenue reductions from the low-income discount program. Total sewer revenue redistribution from low-income discount rates is estimated at approximately \$2.5 million for the current fiscal year.

### Wholesale Rates

The City currently provides contractual services to one major wholesale customer, the City of Lake Oswego, Oregon, and several smaller wholesale customers, including county service districts and portions of two other cities. Each wholesale service contract provides for full cost recovery during the life of the contract. Charges to wholesale customers were \$3,362,408 for FY 2008-09, which were approximately 0.95 percent of total System revenues.

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

Fiscal Year	2005-06	2006-07	2007-08	2008-09	2009-10
<u><b>CUSTOMER CLASS</b></u>					
<u><b>Residential</b></u>					
Account Service (\$/account) (2)	3.19	3.58	--	--	--
Sanitary Volume (\$/ccf)	5.30	5.63	5.81	6.17	6.61
Impervious Area Charge (\$/1000 sq. ft.)	5.94	7.01	7.64	8.07	8.64
Average Single-Family Monthly Bill(\$/account) (2), (3), (4)	42.89	45.25	44.37	46.89	50.15
<u><b>Commercial</b></u>					
Sanitary Volume (\$/ccf)	5.431	5.730	5.974	6.347	6.743
Cooling (Clean) Water					
To Combined Sewer (\$/ccf)	5.431	5.730	5.974	6.347	6.743
To Storm Sewer (\$/ccf)	0.591	0.626	0.629	0.651	0.726
Impervious Area Charge (\$/1000 sq. ft.)	6.45	7.57	8.33	8.77	9.25
Billing Charge - Monthly/Quarterly	10.61	11.51	--	--	--
Extra Strength					
Biochemical Oxygen Demand (\$/lb.)	0.457	0.480	0.498	0.505	0.527
Suspended Solids (\$/lb.)	0.559	0.586	0.602	0.603	0.639
<u><b>Capital Charges</b></u>					
Sanitary System Development Charge (\$/EDU)	2,830	2,995	3,258	3,520	3,835
<u><b>Year-to-Year Percentage Increase</b></u>					
Of Avg. Single-Family Monthly Bill (2) (3)	5.6%	5.3%	-1.9%	5.7%	7.0%

Notes:

- (1) Abbreviations used in the table include the following: "ccf" (hundred cubic feet) and "EDU" (Equivalent Dwelling Units).
- (2) Beginning in FY 2007-08, the Bureau no longer collects any Account Service Charges associated with the Sewer System billings. These charges have been consolidated with the Water Bureau account service charges. The Water Bureau sets the rates for the single account service charges, collects these revenues, and pays all associated expenses. The drop in the average single family monthly bill and percentage decrease in FY 2007-08 reflect this change in practice.
- (3) Average bills have been restated to reflect average annual billed consumption, which is lower than winter average use.
- (4) Average bill and percentage increase for FY 2006-07 reflect discount of 15% on stormwater portion of average single family residential bill after implementation of Clean River Rewards stormwater discount program in October 2006.

Source: Bureau of Environmental Services.

## Major Retail Users

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

**Table 11**  
**CITY OF PORTLAND, OREGON**  
**Sewer System**  
**Largest Bureau Customers (FY 2008-09)**

<b><u>CUSTOMER</u></b>	<b><u>Total Sewer Charges</u></b>	<b><u>Percentage of Rate Revenues</u></b>
Portland Public Schools	\$2,085,698	1.00%
Port of Portland	2,031,524	0.98
Siltronic Corp.	1,463,085	0.70
Oregon Health and Science University (OHSU)	1,445,439	0.70
Darigold Inc. (formerly WestFarm Foods)	1,403,933	0.69
Precision Castparts	1,303,102	0.67
Portland State University	1,091,391	0.63
Housing Authority of Portland	901,800	0.52
American Property Management	887,855	0.43
Swan Island Dairy	852,951	0.43
Total	<u>\$13,466,778</u>	<u>6.75%</u>

Source: City of Portland.

## OUTSTANDING SEWER SYSTEM DEBT

### Revenue Bonds

Upon the issuance of the 2010 Series A Bonds, the City expects to have a total of \$1,710,220,000 of Sewer System First and Second Lien Bonds outstanding. The following table shows outstanding First and Second Lien Bonds as of the delivery of the 2010 Series A Bonds.

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

<u>Issue</u>	<u>Dated</u>	<u>Final Maturity</u>	<u>Original Par Amount</u>	<u>Amount Outstanding</u>
<b>First Lien Bonds</b>				
2004 Series A Bonds	11/30/2004	10/1/2024	\$163,500,000	\$136,200,000
2004 Series B Bonds	11/30/2004	6/1/2017	93,080,000	86,715,000
2005 Series A Bonds	6/16/2005	8/1/2020	144,850,000	144,850,000
2006 Series A Bonds	5/25/2006	6/15/2031	177,845,000	161,930,000
2007 Series A Bonds	3/8/2007	6/1/2015	193,510,000	143,310,000
2008 Series A Bonds	4/10/2008	6/15/2033	343,550,000	314,645,000
Subtotal			<u>\$1,116,335,000</u>	<u>\$987,650,000</u>
<b>Second Lien Bonds</b>				
2003 Series A Bonds	4/3/2003	6/1/2023	\$88,370,000	\$37,490,000
2006 Series B Bonds	5/25/2006	6/15/2031	87,135,000	79,465,000
2008 Series B Bonds	4/10/2008	6/15/2033	217,975,000	193,555,000
2010 Series A Bonds (1)	8/19/2010	3/15/2035	412,060,000	412,060,000
Subtotal (1)			<u>\$805,540,000</u>	<u>\$722,570,000</u>
TOTAL (1)			<u><u>\$1,921,875,000</u></u>	<u><u>\$1,710,220,000</u></u>

Notes:

(1) Preliminary, subject to change. Assumes premium couponing.

Source: City of Portland.

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

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

<b>Fiscal Year</b>	<b>Outstanding</b>	<b>Proposed</b>	<b>Outstanding</b>	<b>Total</b>	
<b>Ending</b>	<b>First</b>	<b>Second Lien</b>	<b>Second</b>	<b>Second</b>	
<b>30-Jun</b>	<b>Lien Bond</b>	<b>2010 Series A</b>	<b>Lien Bond</b>	<b>Lien Bond</b>	<b>Total</b>
	<b>Debt Service</b>	<b>Bond</b>	<b>Debt Service</b>	<b>Debt Service</b>	<b>Debt Service</b>
2011	\$97,803,894		\$21,213,313		
2012	97,789,894		21,221,038		
2013	97,806,394		21,212,963		
2014	97,785,644		21,216,950		
2015	97,802,394		21,214,388		
2016	100,038,394		21,214,750		
2017	100,059,894		21,217,025		
2018	100,905,394		21,215,200		
2019	92,624,644		26,588,513		
2020	92,629,294		25,702,175		
2021	92,615,981		26,044,675		
2022	40,631,013		78,943,675		
2023	40,639,838		78,965,925		
2024	40,625,963		10,426,175		
2025	40,635,850		10,428,925		
2026	27,855,438		10,429,425		
2027	27,848,313		10,426,925		
2028	27,850,588		10,425,675		
2029	27,847,425		10,424,675		
2030	27,851,963		10,424,725		
2031	27,846,650		10,430,475		
2032	15,619,625		4,310,750		
2033	15,623,463		4,310,250		
2034	-		-		
2035	-		-		
<b>Total</b>	<b>\$1,428,737,944</b>		<b>\$498,008,588</b>		

Source: City of Portland.

*(End of Annual Disclosure Information)*

## PROJECTED REVENUES AND EXPENDITURES

Sewer System historical and forecast operating results are shown in the tables which follow. In general, the results reflect continued high levels of investment in CSO control, and relatively moderate growth in operating expenditures. The financial forecast through FY 2014-15 has been developed in conformance with the Bureau's financial policies and planning standards. (See "FINANCIAL POLICIES AND PLANNING STANDARDS.")

### ASSUMPTIONS

Key assumptions underlying the revenue forecast through FY 2014-15 include:

- Annual rate increases of 6.35 percent through FY 2011-12, and 6.30, 4.00 and 3.90 percent in the last three years of the forecast interval;
- System development charge revenues will average \$9.3 million annually;
- Annual growth of 0.5 percent in the number of accounts within the City;
- Planned debt service coverage ratios of at least 1.50 on First Lien Bonds and 1.30 on First and Second Lien Bonds combined; and
- An operating reserve equal to 10 percent of operating expenses for unforeseen financial needs.

Key assumptions underlying the cost forecast include:

- 1.04 percent annual inflation for external materials and services;
- 0.00 percent annual inflation for personal services in FY 2010-11, with 1.87 percent thereafter; and
- 2.66 percent for internal materials and services.

Assumptions underlying the debt forecast include:

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

<u>Fiscal Year</u>	<u>Amount</u>
2011-12	\$137,750,000
2012-13	0
2013-14	184,250,000
2014-15	0
TOTAL	<u>\$322,000,000</u>

- All future amounts are assumed to be Second Lien Bonds. The City may choose to issue First Lien Bonds in future fiscal years where Second Lien Bonds are currently assumed.
- A 6.0 percent interest rate on the FY 2011-12 fixed-rate debt issue and a 6.25 percent interest on the FY 2013-14 fixed-rate debt issue.

### USE OF RATE STABILIZATION FUND

The Bureau uses transfers between the Sewer System Operating Fund and the Sewer System Rate Stabilization Fund to smooth rate increases while ensuring that coverage meets planning standards purposes. (See "FINANCIAL POLICIES AND PLANNING STANDARDS.") Balances in the Rate Stabilization Fund were being collected between FY 2002-03 and FY 2007-08 in anticipation of the issuance of the 2010 Bonds, corresponding to the final push towards completion of the Eastside CSO project. Balances will be drawn down to the minimum planning standard in FY 2012-13 to fund increases in debt service and maintain coverage.

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

<b>Fiscal Year</b>		<b>Ending Balance</b>
2004-05		20,498,158
2005-06		41,598,441
2006-07		57,007,877
2007-08		76,462,557
2008-09		68,453,771
2009-10	Forecast	58,838,000
2010-11	Forecast	28,321,000
2011-12	Forecast	16,001,000
2012-13	Forecast	8,961,000
2013-14	Forecast	13,730,000
2014-15	Forecast	8,656,000

Notes:

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

Source: Bureau of Environmental Services.

**Table 15**  
**CITY OF PORTLAND, OREGON**  
**Sewer System**  
**Forecast Customer Accounts**

Fiscal Year	Current 2010-11	Forecast 2011-12	Forecast 2012-13	Forecast 2013-14	Forecast 2014-15
Customer Class					
Residential					
Single Family	162,936	163,751	164,570	165,393	166,220
Multi Family					
Monthly	2,048	2,058	2,068	2,078	2,088
Quarterly	8,263	8,304	8,346	8,388	8,430
TOTAL RESIDENTIAL	173,247	174,113	174,984	175,859	176,738
Commercial					
Monthly	3,423	3,444	3,457	3,474	3,491
Quarterly	9,892	9,941	9,991	10,041	10,091
Extra Strength	77	77	77	77	77
Commercial Clean Water to Storm Sewer	17	17	17	17	17
TOTAL COMMERCIAL	13,409	13,475	13,542	13,609	13,676
Total Forecast Accounts	186,656	187,588	188,526	189,468	190,414

Source: Bureau of Environmental Services.



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

Fiscal Year	Current 2010-11	Forecast 2011-12	Forecast 2012-13	Forecast 2013-14	Forecast 2014-15
<b><u>CUSTOMER CLASS</u></b>					
<b><u>Residential</u></b>					
Sanitary Volume (\$/ccf) (2)	7.01	7.55	8.12	8.52	8.94
Impervious Area Charge (\$/1,000 sq. ft.) (2)	9.42	10.11	10.85	11.39	11.95
Average Single-Family Monthly Bill (\$/Account) (3) (4)	53.33	56.72	60.29	62.71	65.15
<b><u>Commercial</u></b>					
Sanitary Volume (\$/ccf) (2)	7.135	7.735	8.323	8.648	9.062
Cooling (Clean) Water					
To Storm Sewer (\$/ccf)	0.736	0.783	0.832	0.865	0.899
Impervious Area Charge (\$/1,000 sq. ft.) (2)	10.00	10.74	11.52	12.09	12.69
Extra Strength					
Biochemical Oxygen Demand (\$/lb.)	0.547	0.582	0.618	0.643	0.668
Suspended Solids (\$/lb.)	0.667	0.709	0.754	0.784	0.815
<b><u>Capital Charges (5)</u></b>					
Sanitary Sewer SDC (\$/EDU)	4,089	4,334	4,594	4,870	5,162
Forecast Year-to-Year Percentage Increase of Avg. Single-Family Monthly Bill	6.35%	6.35%	6.30%	4.00%	3.90%

**Notes:**

- (1) Abbreviations used in the table include the following: "ccf" (hundred cubic feet) and "EDU" (Equivalent Dwelling Units).
- (2) Residential and commercial volume and impervious area charges are gross, including the Willamette River/Portland Harbor Superfund Charge, which was split out separately on sewer bills beginning in FY 2007-08.
- (3) Beginning in FY 2007-08, the Bureau will no longer collect any Account Service Charges associated with the Sewer System billings. These charges will be consolidated with the Water Bureau account service charges. The Water Bureau will set the rates for all Sewer System and Water System account service charges, collect these revenues, and pay related expenses.
- (4) Average bills reflect average annual billed consumption, which is lower than winter average use.
- (5) Capital charges for FY 2011-12 and beyond are estimated; state law requires that these fees to be based on actual capital projects completed, thus they are computed annually.

**Source:** Bureau of Environmental Services.

**COMPARISON OF MONTHLY RESIDENTIAL BILLS**

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

**Table 17**  
**CITY OF PORTLAND, OREGON**  
**Sewer System**  
**Comparison of Average Monthly Sewer and Stormwater Bills**  
**For Single Family Residential Monthly Customers (1)**

<b>Local/Regional (2)</b>	<b>Monthly Bill</b>
Seattle, WA	\$68.48
Lake Oswego	59.37
Olympia, WA	57.74
Tacoma, WA	55.93
Yachats, OR	55.25
Puyallup, WA	54.70
<b>Portland, OR</b>	<b>53.33</b>
McMinnville	48.34
Lake Oswego	47.31
Clackamas County	44.00
Vancouver, WA	43.10
Tigard	41.21
Spokane, WA	41.03
Bend, OR	40.98
Eugene	39.97
Beaverton	39.72
Washington County	39.21
Salem	37.67
Milwaukie	36.98
Corvallis	35.94
Gresham	32.69
Ashland	29.73
<b>National</b>	
Atlanta, GA	\$96.52
Honolulu, HI	\$94.31
Juneau, AK	58.81
Cincinnati, OH	53.91
<b>Portland, OR</b>	<b>53.33</b>
San Diego, CA	51.62
San Francisco, CA	51.12
Richmond, VA	50.02
Knoxville, TN	48.58
Sacramento, CA	46.30
Charlotte, NC	45.59
Boston, MA	37.36
Washington, DC	34.91
Nashville, TN	31.49
Kansas City, MO	28.73
Denver, CO	20.76
Salt Lake City, UT	13.56

Notes:

- (1) As of July 2010. Bills are calculated based on average sewer usage as reported by agency.
- (2) Unless indicated otherwise, local/regional utilities are within Oregon.

Source: Bureau of Environmental Services.

## **HISTORICAL AND PROJECTED RESULTS OF FINANCIAL OPERATIONS**

Tables 18 and 19 show historical and projected results of the Sewer System's financial operations for FY 2004-05 through FY 2014-15. As shown in Table 19, total operating revenues are projected to grow at an average annual rate of 6.1 percent over the forecast interval, from the current year's projection of \$224.1 million to \$301.9 million in FY 2014-15. Service charges and fees are the largest component of operating revenues. Their growth from \$218.1 million to \$294.3 million over the same interval (an annual average increase of 6.2 percent) reflects forecast residential bill increases averaging 5.4 percent, 0.5 percent growth in the number of accounts served, and continued water conservation by residential and commercial customers. Total gross revenues are forecast to increase from the current year projection of \$244.8 million to \$327.4 million, an annual average increase of 6.0 percent.

Forecast Operating Expenses increase from the current year's projection of \$90.7 million to \$98.6 million in FY 2014-15, an annual average increase of 1.7 percent. As noted previously, Utility License Fees were subordinated to the payment of debt service for First Lien Bonds and Second Lien Bonds beginning in FY 2001-02. Therefore, they are not included in the Operating Expenses category in the forecast.

Net Revenues are forecast to increase from the current year's projected \$154.0 million to \$228.8 million in FY 2014-15, an average annual increase of 8.2 percent. First and second lien debt service requirements are projected to increase from the current \$118.5 million to \$176.0 million in FY 2014-15. During the forecast period, the Bureau expects to maintain debt service coverage at or above the 1.50 policy standard on the First Lien Bonds, and to meet or exceed the 1.30 policy standard on the First and Second Lien Bonds combined.

**Table 18**  
**CITY OF PORTLAND, OREGON**  
**Sewer System**  
**Historical Operating Results**

Fiscal Year	2004-05	2005-06	2006-07	2007-08	2008-09
(In thousands of dollars)					
<b>GROSS REVENUES</b>					
Operating Revenues:					
Service Charges & Fees	\$170,228	\$180,993	\$211,551	\$197,918	\$207,909
Wholesale Contracts	2,949	2,823	3,127	3,323	3,859
Other Service Charges & Miscellaneous	2,539	3,486	7,532	8,380	3,401
Total Operating Revenues	175,716	187,302	222,210	209,621	215,169
System Development Charges	9,361	12,464	11,099	11,043	7,287
Interest Earnings	3,531	6,060	13,757	8,231	7,791
Cash Transfers In -					
Rate Stabilization Fund (1)	0	0	0	118	10,000
Other Funds	3,164	2,946	847	923	1,331
<b>TOTAL GROSS REVENUES (2)</b>	<b>\$191,772</b>	<b>\$208,771</b>	<b>\$247,913</b>	<b>\$229,937</b>	<b>\$241,578</b>
<b>OPERATING EXPENSES (3)</b>					
Personal Services	\$29,510	\$29,688	\$31,503	\$34,532	\$37,650
Materials and Services	15,590	16,890	17,685	22,075	23,704
Internal Services	29,293	30,423	35,415	29,561	27,741
Capitalized Overhead	(7,785)	(8,998)	(10,023)	(10,232)	(10,863)
Cash Transfers Out -					
General Fund Overhead	2,610	2,688	3,852	4,670	5,142
Rate Stabilization Fund	6,100	23,000	7,000	17,000	0
Other (4)	2,854	1,530	1,037	871	1,497
<b>TOTAL OPERATING EXPENSES</b>	<b>\$78,172</b>	<b>\$95,221</b>	<b>\$86,469</b>	<b>\$98,478</b>	<b>\$84,871</b>
<b>NET REVENUES</b>	<b>\$113,600</b>	<b>\$113,551</b>	<b>\$161,444</b>	<b>\$131,459</b>	<b>\$156,707</b>
<b>DEBT SERVICE FOR COVERAGE</b>					
First Lien Bonds	\$53,447	\$61,932	\$74,390	\$74,854	\$90,026
Second Lien Bonds (5)	12,967	14,258	22,714	22,749	29,598
<b>TOTAL DEBT SERVICE</b>	<b>\$66,414</b>	<b>\$76,190</b>	<b>\$97,104</b>	<b>\$97,603</b>	<b>\$119,624</b>
<b>DEBT SERVICE COVERAGE (6)</b>					
<u>With Rate Stabilization Transfers</u>					
First Lien Bonds	2.13x	1.83x	2.17x	1.76x	1.74x
First and Second Lien Bonds	1.71x	1.49x	1.67x	1.35x	1.31x
<u>Without Rate Stabilization Transfers</u>					
First Lien Bonds	2.24x	2.20x	2.26x	1.98x	1.63x
First and Second Lien Bonds	1.80x	1.79x	1.74x	1.52x	1.23x

Notes:

- (1) The Rate Stabilization Fund was created in FY 1987-88, under the authority of the First Lien Bond Ordinance.
- (2) As defined in the First Lien Bond Ordinance.
- (3) As defined in the First Lien Bond Ordinance. Excludes depreciation.
- (4) Other operating expenses include decreases in the allowance for uncollectible debt taken in prior years associated with the OV billing system, resulting in negative amounts in FY 2002-03 and FY 2003-04.
- (5) Interest calculated as defined in Master Second Lien Bond Declaration.
- (6) The Debt Service Coverage shown may differ slightly than what has been published previously in the City's Comprehensive Annual Financial Reports (CAFR), as the result of corrections to previous calculations. None of the corrections had a significant impact on coverages.

Source: Bureau of Environmental Services.

**Table 19**  
**CITY OF PORTLAND, OREGON**  
**Sewer System**  
**Projected Operating Results**

Fiscal Year	Projected 2009-10	Forecast 2010-11	Forecast 2011-12	Forecast 2012-13	Forecast 2013-14	Forecast 2014-15
(In thousands of dollars)						
<b>GROSS REVENUES</b>						
Operating Revenues:						
Service Charges & Fees	\$218,087	\$233,866	\$252,299	\$270,301	\$281,456	\$294,283
Wholesale Contracts	3,231	3,605	3,689	3,774	3,862	3,952
Other Service Charges & Miscellaneous	2,825	3,612	3,312	3,475	3,583	3,694
Total Operating Revenues	224,143	241,084	259,300	277,550	288,902	301,929
System Development/Line & Branch Charges	7,609	7,800	10,211	13,509	13,730	14,499
Interest Earnings	1,853	1,967	2,866	3,184	3,874	3,535
Cash Transfers In -						
Rate Stabilization Fund (1)	9,750	30,950	12,650	7,300	0	5,300
Other Funds	1,396	1,917	1,968	2,020	2,074	2,129
<b>TOTAL GROSS REVENUES (2)</b>	<b>\$244,751</b>	<b>\$283,718</b>	<b>\$286,994</b>	<b>\$303,563</b>	<b>\$308,580</b>	<b>\$327,392</b>
<b>OPERATING EXPENSES (3)</b>						
Personal Services	\$40,810	\$38,891	\$41,301	\$42,709	\$44,538	\$45,274
Materials and Services	21,973	20,912	19,968	19,714	18,200	18,446
Internal Services	30,318	31,483	32,625	33,504	33,445	34,369
Capitalized Overhead	(10,722)	(9,574)	(9,757)	(9,943)	(10,134)	(10,327)
Cash Transfers Out -						
General Fund Overhead	5,517	5,449	5,624	5,804	5,990	6,181
Rate Stabilization Fund	0	0	0	0	4,600	0
Other	2,832	3,098	3,790	4,327	4,509	4,694
<b>TOTAL OPERATING EXPENSES</b>	<b>\$90,728</b>	<b>\$90,260</b>	<b>\$93,552</b>	<b>\$96,115</b>	<b>\$101,147</b>	<b>\$98,636</b>
<b>NET REVENUES</b>	<b>\$154,023</b>	<b>\$193,458</b>	<b>\$193,442</b>	<b>\$207,448</b>	<b>\$207,433</b>	<b>\$228,755</b>
<b>DEBT SERVICE</b>						
First Lien Bonds (4)	\$90,032	\$97,804	\$97,790	\$97,806	\$97,786	\$97,802
Second Lien Bonds (5)	28,470	51,048	51,053	61,821	61,823	78,212
<b>TOTAL DEBT SERVICE</b>	<b>\$118,503</b>	<b>\$148,852</b>	<b>\$148,843</b>	<b>\$159,627</b>	<b>\$159,609</b>	<b>\$176,014</b>
<b>DEBT SERVICE COVERAGE</b>						
<b>With Rate Stabilization Transfers</b>						
First Lien Bonds	1.71x	1.98x	1.98x	2.12x	2.12x	2.34x
First Lien and Second Lien Bonds	1.30x	1.30x	1.30x	1.30x	1.30x	1.30x
<b>Without Rate Stabilization Transfers</b>						
First Lien Bonds	1.60x	1.66x	1.85x	1.85x	2.17x	2.29x
First Lien and Second Lien Bonds	1.22x	1.09x	1.22x	1.25x	1.33x	1.27x

Notes:

- (1) The Rate Stabilization Fund was created in FY 1987-88, under the authority of the First Lien Bond Ordinance.
- (2) As defined in the First Lien Bond Ordinance.
- (3) As defined in the First Lien Bond Ordinance. Excludes depreciation.
- (4) Includes debt service on outstanding First Lien Bonds, with no additional First Lien Bonds sold.
- (5) Includes debt service on outstanding Second Lien Bonds and an additional \$137,750,000 and \$184,250,000 issued in FY 2011-12 and FY 2013-14, respectively, at assumed interest rates of 6.0 percent, and 6.25 percent, respectively.

Source: Bureau of Environmental Services.

## **CITY ECONOMIC CHARACTERISTICS**

The City, with an estimated population of 582,130 as of July 1, 2009, 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, 2009. 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. As a major transportation hub of the Pacific Coast with water, land and air connections, Multnomah and Washington counties serve expanding international markets and have experienced considerable growth.

## POPULATION

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

**Table 20**  
**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>
2000	3,365,900	531,600	1,935,960	662,400	449,250	340,000
2001	3,471,700	536,240	1,960,500	666,350	455,800	345,150
2002	3,504,700	538,180	1,989,550	670,250	463,050	350,850
2003	3,541,500	545,140	2,019,250	677,850	472,600	353,450
2004	3,582,600	550,560	2,050,650	685,950	480,200	356,250
2005	3,631,440	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
2000-2009 Compounded						
Annual Rate of Change	1.43%	1.01%	1.52%	1.00%	1.79%	1.24%
2005-2009 Compounded						
Annual Rate of Change	1.30%	1.14%	1.58%	1.13%	1.85%	1.26%

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

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 2008, was higher than in the nation.

Table 21 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 1999 to 2008 was 4.7 percent. The compounded annual rate of change in per capita income for the MSA was 3.1 percent from 1999 to 2008, compared with 3.6 percent for the State, and 3.8 percent for the nation.

**Table 21**  
**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
1999	\$57,977,936	\$30,414	\$27,016	\$28,833
2000	63,462,971	32,779	28,718	30,318
2001	65,361,302	33,064	29,241	30,145
2002	66,304,245	32,976	29,768	31,462
2003	68,225,058	33,542	30,564	32,271
2004	70,928,621	34,553	31,622	33,881
2005	74,752,932	35,869	32,525	35,424
2006	80,796,486	38,040	34,656	37,698
2007	85,339,023	39,443	35,737	39,392
2008	88,021,653	39,942	36,365	40,166
1999-2008 Compound Annual Rate of	4.7%	3.1%	3.6%	3.8%

Source: U.S. Department of Commerce, Bureau of Economic Analysis as reported by Oregon Employment Department on July 20, 2010.

## LABOR FORCE AND UNEMPLOYMENT

Table 22 below shows the annual average civilian labor force, employment level and unemployment level data that is available for the MSA for the period 1999 through 2009. For June 2010, the seasonally-adjusted unemployment rate for the MSA was 10.0 percent (10.2 percent not seasonally-adjusted) with a resident civilian labor force of 1,166,190. Table 23 below shows the seasonally-unadjusted, average annual unemployment rates for the MSA, the State and the United States for the period 2000 through 2009.



**Table 22**  
**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>	
2000	1,075,853	47,710	4.4%	1,028,143
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	1,120,219	56,275	5.0	1,063,944
2007	1,140,637	54,933	4.8	1,085,704
2008	1,166,279	68,404	5.9	1,097,875
2009	1,175,710	125,168	10.6	1,050,542

Notes:

(1) Includes non-agricultural wage and salary, self-employed, unpaid family workers, domestics, agricultural workers and labor disputants.

Source: Oregon Employment Department as of July 20, 2010.

**Table 23**  
**CITY OF PORTLAND, OREGON**  
**AVERAGE ANNUAL UNEMPLOYMENT**  
**MSA, OREGON, AND THE UNITED STATES**  
**(Seasonally Adjusted)**

<b>Year</b>	<b>MSA</b>	<b>State of Oregon</b>	<b>USA</b>
2000	4.4%	5.1%	4.0%
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	5.1	4.6
2008	5.9	6.5	5.8
2009	10.6	11.1	9.3

Source: Oregon Employment Department as of July 20, 2010.

## EMPLOYMENT BY INDUSTRY

Non-manufacturing employment (including government) accounts for about 88 percent of non-farm employment in the Portland area. The Portland metropolitan area's manufacturing employment, accounting for the remaining 12 percent of area employment, is largely based in the metals and computer and electronic equipment sectors.

**Table 24**  
**CITY OF PORTLAND, OREGON**  
**PORTLAND-VANCOUVER-BEAVERTON, OREGON MSA**  
**NON-FARM WAGE AND SALARY EMPLOYMENT <sup>(1)</sup>(000)**

<b>Industry</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Total nonfarm employment	<b>983,600</b>	<b>1,015,300</b>	<b>1,034,900</b>	<b>1,034,300</b>	<b>972,400</b>
Total private	<b>846,000</b>	<b>876,400</b>	<b>892,700</b>	<b>887,300</b>	<b>824,100</b>
Manufacturing	<b>123,400</b>	<b>126,600</b>	<b>126,100</b>	<b>123,200</b>	<b>108,600</b>
Durable goods	93,600	96,400	95,700	93,500	81,500
Wood product manufacturing	5,900	6,000	5,600	4,800	3,700
Primary metal manufacturing	6,000	6,300	6,600	7,100	5,800
Fabricated metal manufacturing	12,500	12,900	13,300	13,400	11,000
Machinery manufacturing	8,300	8,400	8,600	8,300	7,100
Computer/electronic manufacturing	36,500	37,700	36,900	35,900	33,600
Transportation equipment manufacturing	9,000	9,300	9,000	8,600	7,000
Nondurable goods	29,800	30,200	30,400	29,600	27,100
Food manufacturing	8,600	8,800	9,100	9,200	9,000
Paper manufacturing	5,000	4,900	4,700	4,500	3,900
Non-Manufacturing	<b>722,500</b>	<b>749,800</b>	<b>766,600</b>	<b>764,200</b>	<b>715,600</b>
Construction and mining	60,300	64,900	66,900	62,400	50,400
Trade, transportation, and utilities	198,000	202,600	205,700	203,900	189,600
Wholesale Trade	56,300	57,500	58,100	57,800	54,400
Retail trade	104,900	107,600	109,800	108,500	100,900
Transportation, warehousing, and utilities	36,900	37,500	37,800	37,600	34,300
Information	23,100	24,000	24,800	24,600	22,900
Financial activities	68,200	70,600	70,400	67,800	64,200
Professional and business services	128,500	134,700	136,400	136,500	124,400
Educational and health services	119,800	123,200	127,800	132,600	134,900
Leisure and hospitality	90,100	94,100	98,000	99,300	94,000
Other services	34,500	35,700	36,600	37,100	35,200
Government	<b>137,600</b>	<b>138,900</b>	<b>142,300</b>	<b>147,000</b>	<b>148,300</b>

Notes:

(1) Totals may not sum due to rounding.

Source: State of Oregon, Employment Department as of July 20, 2010.

**Table 25**  
**CITY OF PORTLAND, OREGON**  
**MAJOR EMPLOYERS IN THE MSA**

<b>Employer</b>	<b>Product or Service</b>	<b>2009 Estimated Employment (1)</b>
<b>Private Employers</b>		
Intel Corporation	Computer and electronic products	15,141
Providence Health System	Health care & health insurance	13,825
Fred Meyer Stores	Grocery & retail variety chain	9,630
Kaiser Foundation of the Northwest	Healthcare	8,759
Legacy Health System	Health care	8,251
NIKE Inc.	Sports shoes and apparel	7,000
Wells Fargo	Bank	5,010
U.S. Bank	Bank & holding company	3,948
Southwest Washington Medical Center	Health care	3,350
Daimler Trucks North America	Heavy duty trucks	2,850
Portland General Electric	Utilities	2,800
Regence BlueCross BlueShield of Oregon	Insurance	2,243
Xerox Corp.	Document systems	1,769
Greenbrier Cos. Inc.	Transportation equipment	1,020
<b>Public Employers</b>		
Oregon Health and Science University	Health care & education	12,700
City of Portland	Government	6,900
Multnomah County	Government	6,659
Beaverton School District	Education	5,000
Portland School District	Education	4,900
Portland Community College	Education	3,704
Vancouver School District	Education	3,697
Portland State University	Education	3,503
Evergreen School District	Education	3,000
Bonneville Power Administration	Public Power	2,659
TriMet	Mass Transit	2,650

Source: Portland Business Journal, December 25, 2009.

## **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.

The industrial sector has been negatively impacted by the downturn in the Portland economy. Overall vacancy rates increased to 9.1 percent compared to 8.0 percent in the first quarter of 2010, as reported by Grubb & Ellis in their publication *Industrial Trends Report -- First Quarter 2010, Portland, OR*. Vacancy rates were slightly higher relative to the fourth quarter of 2009. Grubb & Ellis note that despite the increase in vacancy rates, there are signs of improvement in the industrial property market, with some market segments showing increased user demand and positive net absorption. With no new construction projected to come online, it is expected that vacancy rates will gradually begin to decline.

### **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.

Vacancy rates have increased slightly over all markets in the first quarter of 2010, according to the *Office Trends Report -- First Quarter 2010, Portland, OR* prepared by Grubb & Ellis (the “Office Quarterly Report”). The first quarter vacancy rate for the Portland region was 15.3 percent, compared to 12.6 percent for the fourth quarter of 2009. Vacancy rates in the suburban market continued to grow to 18.1 percent from 14.9 percent in the first quarter of 2009. The first quarter 2010 vacancy rate in the downtown area of 10.8 percent was also higher than the first quarter 2009 vacancy rate of 8.7 percent. Despite the higher vacancy rates, Grubb & Ellis report that the downtown office market has stabilized, helped in large part by the relocation of federal General Services Administration tenants into the market while the Edith Green-Wendell Wyatt Federal Building is being renovated. The Office Quarterly Report indicates that the office market ended the first quarter of 2010 with a year-to-date net absorption gain for the overall market of 204,936 square feet. Class A office space in the downtown averaged \$26.21 per square foot, and \$23.65 per square foot for the Portland metropolitan area.

### **Housing**

The year-to-date median selling price of a home in the Portland metropolitan area in March 2010 was \$237,500, down 5.0 percent from March 2009 year-to-date price of \$250,000, according to the Realtors Metropolitan Area Multiple Listing Service (“RMLS”). As of March 2010, homes in the Portland metropolitan area were on the market an average of 144 days during the year. According to RMLS, through March of 2010, the West and Southeast Portland regions were the most active residential real estate areas, with 1,573 and 1,548 closed sales, respectively. Portland metropolitan area closed sales year-to-date were up 37.3 percent from the same period in 2009. The table below compares the median home sale price for the first quarter of 2009 and 2010 in the Portland region with the nation and western U.S.

**Table 26**  
**CITY OF PORTLAND, OREGON**  
**MEDIAN HOME SALE PRICE**  
**(U.S., West, and Portland Metropolitan Area)**

<b>Region</b>	<b>1st Quarter 2009</b>	<b>1st Quarter 2010</b>	<b>Percent Change</b>
U.S.	\$167,300	\$166,100	-0.7%
West	229,200	210,200	-8.3%
Portland Metro. Area	248,600	237,400	-4.5%

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.

**Table 27**  
**CITY OF PORTLAND, OREGON**  
**MEDIAN CONDO/COOP SALE PRICE**  
**(U.S., West, and Portland Metropolitan Area)**

<b>Region</b>	<b>1st Quarter 2009</b>	<b>1st Quarter 2010</b>	<b>Percent Change</b>
U.S.	\$170,800	\$170,700	-0.1%
West	167,500	155,300	-7.3%
Portland Metro. Area	191,500	172,200	-10.1%

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 28**  
**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>
1999	929	\$102,663,214	190	\$102,755,559
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	665	137,971,790	76	390,731,993
2009	430	95,701,263	14	36,851,117

Source: U.S. Census Bureau.

## **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 2009, 501 ocean-going vessels made calls at Port facilities. Total maritime tonnage in 2009 decreased by 27.1 percent, from 10.3 million short tons in 2009 compared to 14.1 million in 2008. Through April 2010, total maritime tonnage was up 45 percent over January 2009.

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. The project will be paid for with federal, Washington and Oregon state, and local port funds. Because significant areas of the Columbia River are naturally deeper than what the new channel requires, only specific areas will require dredging. The Columbia River channel deepening effort is expected to be completed by the end of calendar year 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 nearly 13 million passengers annually on 13 commercial carriers, with more than 500 flights daily. This includes nonstop service on international flights to Amsterdam, Netherlands; Vancouver, British Columbia; Calgary, Alberta; and Tokyo, Japan. PDX handles nearly 200,000 tons of air cargo annually on 11 carriers. In 2008, 243,193 short tons of cargo 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 2008 through June 2009, passengers boarded a TriMet bus or train approximately 101.5 million times.

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

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, which connects the downtown area with the Pearl District and Northwest Portland, began operations in 2001. The Portland Streetcar is owned and operated by the City, and has entered into contracts with TriMet for train operators and mechanics. Construction of the Gibbs extension of the streetcar line to the South Waterfront District was completed in the fall of 2005; service began in late 2006 following development of major components in the area. Construction of the Lowell extension was completed in August 2007. Federal funding has been approved which completes the funding package for extension of the streetcar line to Portland’s east side. 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 estimated cost of the extension is \$147 million. 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. PGE Park, which was renovated and reopened in 2001, is currently home to the Portland Beavers (Triple-A baseball), the Portland Timbers (A-League soccer), and the Portland State Vikings (Division I college football and women’s soccer). In 2009, Major League Soccer announced the conditional approval of a major league soccer franchise for Portland, and in 2010, the City Council approved an agreement with Peregrine Sports LLC to renovate PGE Park for use by Major League Soccer.

## **HIGHER EDUCATION**

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

Portland State University (“PSU”), one of the three large universities 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 2009-10 was approximately 29,972 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 2008-09 was approximately 2,424 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, Western States Chiropractic College, Oregon College of Oriental Medicine, National College of Naturopathic Medicine, and East-West College of the Healing Arts are also located in the City.

Several community colleges serve the Portland metropolitan area including 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 20.6 percent of the State's Gross Farm and Ranch Sales based on 2009 estimates from the Oregon State University Extension Economic Information Office. Clackamas County ranked second and Yamhill and Washington counties ranked third and fourth among all counties in the State in Gross Farm and Ranch Sales.

The 2009 Gross Farm and Ranch Sales in Clackamas County was \$302,449,000; Washington County was \$238,945,000; Yamhill County was \$222,564,000; Multnomah County was \$62,828,000; and Columbia County was \$19,632 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 INITIATIVES TO BE PLACED ON THE BALLOT

To place a proposed 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 is 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.

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

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 29**  
**CITY OF PORTLAND, OREGON**  
**Statewide Initiative Petitions that Qualified and Passed**  
**2002-2010**

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

Source: Elections Division, Oregon Secretary of State.

## **FUTURE INITIATIVE MEASURES**

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

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

## **TAX MATTERS**

### **2010 SERIES A BONDS – TAX EXEMPTION**

In the opinion of K&L Gates LLP, Bond Counsel, interest on the 2010 Series A Bonds is excludable from gross income for federal income tax purposes. Furthermore, interest on the 2010 Series A Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and is not included in adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations.

Federal income tax law contains a number of requirements that apply to the 2010 Series A Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the use of proceeds of the 2010 Series A Bonds and the facilities financed or refinanced with proceeds of the 2010 Series A 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 2010 Series A Bonds could be included in gross income for federal income tax purposes retroactively to the date of issuance of the 2010 Series A 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 income tax consequences of acquiring, carrying, owning or disposing of the 2010 Series A Bonds. Owners of the 2010 Series A Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the 2010 Series A 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, and various withholding requirements.

Prospective purchasers of the 2010 Series A Bonds should be aware that ownership of the 2010 Series A 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 2010 Series A Bonds. Bond Counsel expresses no opinion regarding any collateral tax consequences. Prospective purchasers of the 2010 Series A Bonds should consult their tax advisors regarding collateral federal income tax consequences.

Payments of interest on tax-exempt obligations, such as the 2010 Series A 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 2010 Series A Bonds. Owners of the 2010 Series A Bonds are advised that, if the IRS does audit the 2010 Series A 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 2010 Series A 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 2010 Series A Bonds until the audit is concluded, regardless of the ultimate outcome.

### **Premium**

An amount equal to the excess of the purchase price of a 2010 Series A Bond over its stated redemption price at maturity constitutes premium on that 2010 Series A Bond. A purchaser of a 2010 Series A Bond must amortize any premium over that 2010 Series A Bond's term using constant yield principles, based on the 2010 Series A Bond's yield to maturity. As premium is amortized, the purchaser's basis in the 2010 Series A Bond and the amount of tax-exempt interest received will be reduced by the amount of amortizable premium properly allocable to the purchaser. This will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes on sale or disposition of the 2010 Series A Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of 2010 Series A Bonds at a premium, whether at the time of initial issuance or subsequent thereto, should consult their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and the state and local tax consequences of owning such 2010 Series A Bonds.

### **Original Issue Discount**

The initial public offering price of certain 2010 Series A Bonds (the "Original Issue Discount Bonds") may be less than the stated redemption price at maturity. In such case, the difference between (i) the stated amount payable at the maturity of an Original Issue Discount Bond and (ii) the initial public offering price of that Original Issue Discount Bond constitutes original issue discount with respect to that Original Issue Discount Bond in the hands of the owner who purchased that Original Issue Discount Bond at the initial public offering price in the initial public offering of the 2010 Series A Bonds. The initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to an Original Issue Discount Bond equal to that portion of the amount of the original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by the initial owner.

In the event of the redemption, sale or other taxable disposition of an Original Issue Discount Bond prior to its stated maturity, however, the amount realized by the initial owner in excess of the basis of the Original Issue Discount Bond in the hands of its initial owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Bond was held by the initial owner) is includable in gross income. Purchasers of Original Issue Discount Bonds should consult their tax advisors regarding the determination and treatment of original issue discount for federal income tax purposes and the state and local tax consequences of owning Original Issue Discount Bonds.

### **OREGON PERSONAL INCOME TAX**

In the opinion of Bond Counsel, interest on the 2010 Series A Bonds is exempt from Oregon personal income taxation.

### **RATING**

The 2010 Series A Bonds have been rated "Aa3" by Moody's Investors Service and "AA" by Standard & Poor's. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody's Investors Service, Inc., 250 Greenwich Street, New York, New York, 10007; and Standard & Poor's, 55 Water Street, New York, New York, 10004. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agency concerned, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of any such ratings may have an adverse effect on the market price of the 2010 Series A Bonds.

### **FINANCIAL ADVISOR**

The City has retained Public Financial Management, Inc., Seattle, Washington, to serve as its financial advisor in conjunction with the issuance of the 2010 Series A Bonds. The financial advisor has not audited, authenticated or otherwise verified the information set forth in this Official Statement or any other related information available to the City with respect to the accuracy and completeness of disclosure of such information, and no guaranty, warranty, or other representation is made by the financial advisor respecting the accuracy and completeness of this Official Statement or any other matter related to this Official Statement.

## **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 2010 Series A 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 2010 Series A Bonds, the Ordinance, the Bond Declaration, and the authority to issue the 2010 Series A Bonds conform to the 2010 Series A Bonds and the applicable laws under which they are issued. The statements made in this Official Statement under the captions “THE 2010 SERIES A BONDS” and “TAX MATTERS” have been reviewed and approved by Bond Counsel. All other representations of law and factual statements contained in this Official Statement, including but not limited to all financial and statistical information and representations contained herein, have not been reviewed or approved by Bond Counsel.

## **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 2010 Series A 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 2010 Series A Bonds, the City will deliver a certificate to the Underwriters to the effect that the City has examined this Official Statement and the financial and other data concerning the City contained herein and that, to the best of the City’s knowledge and belief, (i) this Official Statement, both as of its date and as of the date of delivery of the 2010 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 2010 Series A Bonds, there has been no material change in the affairs (financial or otherwise), financial condition or results of operations of the City except as set forth in this Official Statement.

## **MISCELLANEOUS**

All quotations from and summaries and explanations of provisions of law herein do not purport to be complete, and reference should be made to said laws for full and complete statements of their provisions. This Official Statement is not to be construed as a contract or agreement between the City and the Underwriters or owners of any of the 2010 Series A Bonds. Any statements made in this Official Statement involving matters of opinion are intended merely as opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or its agencies, since the date hereof.

## **CONTINUING DISCLOSURE**

Pursuant to SEC Rule 15c2-12, as amended (17 CFR Part 240, § 240.15c2-12) (the “Rule”), the City, as the “obligated person” within the meaning of the Rule, will execute and deliver a Continuing Disclosure Certificate substantially in the form attached hereto as Appendix E for the benefit of the 2010 Series A Bond holders.

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

## **CONCLUDING STATEMENT**

This Official Statement has been deemed final by the City for purposes of Rule 15c2-12 of the Securities and Exchange Commission. The undersigned certifies that to the best of his knowledge and belief, (i) this Official Statement, both as of its date and as of the date of delivery of the 2010 Series A Bonds, does not contain any untrue statement of a material fact or omit any statement of a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and (ii) between the date of this Official Statement and the date of delivery of the 2010 Series A Bonds there has been no material change in the affairs (financial or other), financial condition or results of operations of the City except as set forth in or contemplated by this Official Statement.

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

### **CITY OF PORTLAND, OREGON**

By: \_\_\_\_\_  
Debt Manager  
Office of Management and Finance

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

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

## **Section 1. Definitions.**

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

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

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

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

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

“Audit” means the audit required by ORS 297.425.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“ORS” means the Oregon Revised Statutes.

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

all Second Lien Bonds except Second Lien Bonds that have been defeased pursuant to Section 11 of this Master Declaration, and Second Lien Bonds which have matured and not been presented for payment (provided sufficient funds to pay those Second Lien Bonds have been transferred to the Paying Agent).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“State” means the State of Oregon.

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

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

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

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

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

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

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

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

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

### Section 3. Second Lien Bond Funds and Accounts.

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

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

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

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



from the July 1<sup>st</sup> transfer, and to start making twelve monthly transfers of \$1 because of the January 1<sup>st</sup> transfer. Assuming no other transactions in that subaccount of the Second Lien Bond Reserve Account, the balance in the Second that subaccount will again be equal to the Second Lien Bond Reserve Requirement for that subaccount on the following January 1<sup>st</sup>.

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

(ii) **Second**, from the liquidation proceeds of any Permitted Investments on deposit in that subaccount; and

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

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

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

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

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

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

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

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

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

4.4 The City shall determine whether it complied with Sections 4.2 and 4.3 for each Fiscal Year not later than sixty (60) days after the beginning of the subsequent Fiscal Year, based on the financial information available to the City at that time, and compliance with Sections 4.2 and 4.3 shall be determined based on that financial information. A failure to comply

with Sections 4.2 or 4.3 shall not constitute an Event of Default if, within 120 days after the beginning of the subsequent Fiscal Year, the City implements the recommendations of a Qualified Consultant that is engaged by the City to deliver written recommendations for a schedule of rates and charges or other actions which the Qualified Consultant reasonably projects will permit the City to comply with Sections 4.2 or 4.3 for the remainder of the Fiscal Year in which the recommendations are delivered to the City (with calculations for the partial year made on an annualized basis).

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

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

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

- A. For the Rate Covenants: For each Balloon Payment that is Outstanding on May 1 of any Fiscal Year, the Debt Manager shall prepare a schedule of principal and interest payments for a hypothetical Series of Second Lien Bonds that refunds that Balloon Payment in accordance with Section 4.6.D. The Debt Manager shall prepare that schedule as of that first day of May, and, except as provided below in Section 4.6.E, that schedule shall be used to determine compliance with the rate covenants in Sections 4.2 and 4.3 for the following Fiscal Year.
- B. For Parity Second Lien Obligations: Whenever a Balloon Payment will be Outstanding on the date a Series of Parity Second Lien Obligations is issued, the Debt Manager shall prepare a schedule of principal and interest payments for a hypothetical Series of Second Lien Bonds that refunds each Outstanding Balloon Payment in accordance with this Section 4.6.D. The Debt Manager shall prepare that schedule as of the date the Parity Second Lien Obligations are sold, and, except as provided below in Section 4.6.E, that schedule shall be used to determine compliance with the tests for Parity Second Lien Obligations in Section 5.

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

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

## **Section 5. Parity Second Lien Obligations**

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

Second Lien Obligations are issued and with the proposed Parity Second Lien Obligations treated as Outstanding; or

(ii) A certificate or opinion of a Qualified Consultant:

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

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

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

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

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

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

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

## **Section 6. Subordinate Obligations.**

The City may issue Subordinate Obligations only if:

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

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

## **Section 7. Separate Utility System.**

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

## **Section 8. General Covenants.**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(i) There has been filed with the City a certificate of a Qualified Consultant stating that such disposition will not impair the ability of the City to comply with the rate covenants contained in Section 4.1 of this Master Declaration; or

(ii) Provision is made for the payment, redemption or other defeasance of a principal amount of Second Lien Bonds equal to the greater of the following amounts:

(a) An amount which will be in the same proportion to the net principal amount of Second Lien Bonds then Outstanding (defined as the total principal amount of Second Lien Bonds then Outstanding less the amount of cash and investments in the Sinking Fund) that the Gross Revenues attributable to the part of the Sewer System sold or disposed of for the 12 preceding months bears to the total Gross Revenues for such period; or

(b) An amount which will be in the same proportion to the net principal amount of Second Lien Bonds then Outstanding that the book value of the part of the Sewer System sold or disposed of bears to the book value of the Sewer System immediately prior to such sale or disposition.

C. The City may dispose of any portion of the Sewer System that has become unserviceable, inadequate, obsolete, or unfit to be used or no longer necessary for use in the operation of the Sewer System.

D. If the ownership of all or part of the Sewer System is transferred from the City through the operation of law, the City shall to the extent authorized by law, reconstruct or replace such transferred portion using any proceeds of the transfer unless the City Council reasonably determines that such reconstruction or replacement is not in the best interest of the City and the Second Lien Bond Owners, in which case any proceeds shall be used for the payment, redemption or defeasance of the Second Lien Bonds.

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

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

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

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



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

**I. Waivers of Event of Default.**

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

**J. Remedies Granted in Master Declaration Not Exclusive.**

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

**Section 10. Amendment of Master Declaration.**

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

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

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

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

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

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

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

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

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

## **Section 11. Defeasance.**

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

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

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

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

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

## **Section 12. BEO System.**

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

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

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

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

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

- C. The selection by the Depository of the beneficial interest in Second Lien Bonds to be redeemed prior to maturity; or
- D. The payment to any participant, correspondent, or any other person other than the owner of the Second Lien Bonds as shown in the registration books maintained by the Registrar, of any amount with respect to principal of or interest on the Second Lien Bonds.

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

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

### **Section 13. Redemption of Second Lien Bonds.**

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

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

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

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

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

- A. The redemption date;

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

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

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

#### **Section 14. Authentication, Registration and Transfer.**

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

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

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

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

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

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

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

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

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

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

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





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**APPENDIX B**  
**2010 SUPPLEMENTAL BOND DECLARATION**

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# **SUPPLEMENTAL BOND DECLARATION**

**City of Portland, Oregon**

**Second Lien Sewer System Revenue Bonds  
2010 Series A**

Executed on behalf of the City of Portland, Oregon  
As of the \_\_\_\_ day of \_\_\_\_\_, 2010

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# BOND DECLARATION

THIS BOND DECLARATION is executed as of \_\_\_\_\_, 2010, by the Debt Manager of the City of Portland, Oregon pursuant to the authority granted to the “Debt Manager” by City Ordinance No. \_\_\_\_\_. That Ordinance authorizes the Debt Manager to execute a bond declaration to specify the terms under which the 2010 Series A Bonds are issued and the administrative provisions that apply to the 2010 Series A Bonds, and to provide any covenants that apply to the 2010 Series A Bonds that are not contained in the Master Declaration or the Ordinance.

## Section 1. Definitions

Unless the context clearly requires otherwise, capitalized terms that are used in this 2010 Series A Bond Declaration and are defined in this Section 1 shall have the meanings defined for those terms in this Section 1, and capitalized terms that are used in this 2010 Series A Bond Declaration but are not defined in this Section 1 shall have the meanings defined for those terms in the Master Declaration.

“2010 Series A Bond Declaration” means this Supplemental Bond Declaration.

“2010 Series A Bonds” means the City’s Second Lien Sewer System Revenue Bonds, 2010 Series A issued pursuant to Section 2 of this 2010 Series A Bond Declaration.

“2010 Series A Insurance Policy” means the insurance policy issued by the 2010 Series A Insurer guaranteeing the scheduled payment of principal of and interest on the 2010 Series A Bonds when due.

“2010 Series A Insurer” means \_\_\_\_\_.

“2010 Series A Reserve Credit Facility” means the municipal bond debt service Reserve insurance policy for the 2010 Series A Bonds that is issued by the 2010 Series A Insurer.

“2010 Series A 2010 Series A Reserve Subaccount” means the subaccount in the Second Lien Bond Reserve Account as described in Section 4.

“Declaration” means the Master Declaration and the 2010 Series A Bond Declaration.

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

“Ordinance” means City Ordinance No. \_\_\_\_\_ which was adopted by the City Council on \_\_\_\_\_, 2010, and which authorizes the execution of this 2010 Series A Bond Declaration and the issuance of the 2010 Series A Bonds.

## Section 2. 2010 Series A Bonds as “Parity Second Lien Obligations” under the Master Declaration

- 2.1. The 2010 Series A Bonds shall be “Second Lien Bonds” and “Parity Second Lien Obligations” as defined in the Master Declaration.
- 2.2. The City will charge rates and fees in connection with the operation of the Sewer System, which, when combined with other Gross Revenues, but without regard to transfers from and to the Rate Stabilization Fund, are adequate to generate Net Revenues each Fiscal Year at least equal to one hundred percent (100%) of Combined Annual Debt Service due in that Fiscal Year.
- 2.3. Pursuant to Section 6 of the Master Declaration I certify that:

- A. No Event of Default under the Master Declaration or any Supplemental Declaration has occurred and is continuing; and
- B. There is no deficiency in the Second Lien Bond Account and all transfers to the Second Lien Bond Reserve Account that are required by the Master Declaration to be made on or before the date of issuance of the 2010 Series A Bonds have been made.

### **Section 3. Basic Terms of the 2010 Series A Bonds**

- 3.1. Pursuant to the authority of the Uniform Revenue Bond Act, City Ordinance No. \_\_\_\_\_, and this 2010 Series A Bond Declaration, the City has issued its Second Lien Sewer System Revenue Bonds, 2010 Series A, in the aggregate principal amount of \$\_\_\_\_\_. The 2010 Series A Bonds shall bear interest payable on June 15 and December 15 of each year, commencing \_\_\_\_\_, and shall mature in the following years in the following principal amounts:

Date	Principal (\$)	Rate (%)	Date	Principal (\$)	Rate (%)
------	----------------	----------	------	----------------	----------

\*Term Bond

- 3.2. 2010 Series A Bond proceeds shall be used to fund capital improvements to the City's Sewer System, [to refund the City's \_\_\_\_\_, to purchase the 2010 Series A Reserve Credit Facility] and to pay costs of issuing the 2010 Series A Bonds.

### **Section 4. 2010 Series A Reserve Subaccount**

- 4.1. The City shall create and maintain the 2010 Series A Reserve Subaccount. The 2010 Series A Reserve Subaccount shall secure the 2010 Series A Bonds. Except as specifically provided in this Section 4 amounts credited to the 2010 Series A Reserve Subaccount shall be used only to pay principal, interest and premium on the 2010 Series A Bonds, and only if amounts in the Second Lien Debt Service Account are not sufficient to make those payments. The City hereby irrevocably pledges the amounts that are credited to the 2010 Series A Reserve Subaccount to pay the 2010 Series A Bonds. Pursuant to ORS 287A.325, this pledge shall be valid and binding from the Closing date of the 2010 Bonds. The amounts so pledged and hereafter received by the City shall immediately be subject to the lien of this pledge without any physical delivery or further act, and the lien of this pledge shall be superior to all other claims and liens whatsoever.
- 4.2. At Closing of the 2010 Series A Bonds, the City shall deposit into the 2010 Series A Reserve Subaccount an amount equal to the Second Lien Bond Reserve Requirement. The deposit may be made from amounts available in the Subordinate Indebtedness Account, from 2010 Series A Bond proceeds, or other amounts available to the City, or may be in the form of one or more Reserve Credit Facilities.

### **Section 5. Redemption of 2010 Series A Bonds**

- 5.1. The 2010 Series A Bonds are subject to redemption prior to maturity in whole or in part at the option of the City on any date on or after June 15, 20\_\_, in any order of maturity and by lot within a maturity, at a price of par plus accrued interest to the date of redemption.

- 5.2. The 2010 Series A Bonds maturing on June 15, 20\_\_\_, are subject to mandatory redemption on June 15 in each of the years and in the principal amounts set forth in the following table, such redemption to be at a price equal to 100 percent of the principal amount to be redeemed plus accrued interest to the date fixed for redemption. The 2010 Series A Bonds to be redeemed on each such date shall be selected by lot.

Redemption Date (June 15)	Principal Amount to be Redeemed
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\*

\* Final maturity

- 5.3. In the case of any redemption of less than all of the outstanding 2010 Series A Bonds, the City shall have the right to specify the particular maturities to be redeemed and the aggregate principal amounts of each such maturity to be redeemed.
- 5.4. While the 2010 Series A Bonds are in BEO form the City shall give notice to DTC as provided in the rules and procedures of DTC. However, the City shall not be required to give DTC notice of redemption more than twenty days prior to the redemption date.
- 5.5. Any notice of optional redemption may state that the optional redemption will not occur if the City fails to provide the paying agent with moneys sufficient to pay the redemption price of the 2010 Series A Bonds that are being redeemed, or that the redemption will not occur if any other condition that is specified in the notice occurs. If a conditional notice of redemption is given and the City will not redeem 2010 Series A Bonds, the paying agent shall give notice to owners of the 2010 Series A that were to be redeemed as promptly as practicable.

## **Section 6. Security for 2010 Series A Bonds**

The 2010 Series A Bonds shall be special obligations of the City. The 2010 Series A Bonds shall be “Second Lien Bonds” and “Parity Second Lien Obligations” as defined in the Master Declaration, and shall be payable solely from the Net Revenues, Subsidy Payments, and amounts required to be deposited in the Second Lien Bond Account and Second Lien Bond Reserve Account as required and as provided by the Master Declaration. Neither the full faith and credit nor the taxing powers of the City, the State of Oregon or any other political subdivision thereof is pledged to the payment of the principal of, premium (if any) or interest on the 2010 Series A Bonds. No Owner of any 2010 Series A Bond shall have the right to compel the City to exercise its taxing powers to pay any amounts owing under or with respect to the 2010 Series A Bonds.

## **Section 7. Form of 2010 Series A Bonds**

The 2010 Series A Bonds shall be in substantially the form attached as Exhibit A and shall be signed with the facsimile or manual signature of the Mayor and the City Auditor.

## **Section 8. Tax-Exempt Status of 2010 Series A Bonds/Designation of 2010 Series A Bonds as “Build America Bonds”**

[The City covenants with the owners of the 2010 Series A Bonds to use the proceeds of the 2010 Series A Bonds and to otherwise comply with the provisions of the Code so that interest paid on the 2010 Series A Bonds will not be includable in gross income of the Owners for federal income tax purposes. The City specifically covenants:

- 8.1. the City shall not take any action or omit any action, if it would cause any series of 2010 Series A Bonds to become “arbitrage bonds” under Section 148 of the Code;
- 8.2. the City shall operate the facilities financed with the 2010 Series A Bonds so that no 2010 Series A Bonds are “private activity bonds” within the meaning of Section 141 of the Code.]

## **Section 9. Provisions Related to the 2010 Series A Reserve Credit Facility**

[to be added if a Reserve Credit Facility is used]

## **Section 10. Reservation of Right to Make Subsequent Amendments**

In addition to the rights the City has reserved under Section 11 of the Master Declaration, the City reserves the right to make any or all of the amendments to the Master Declaration that are described in this Section 10 without the consent of the Owners of the 2010 Series A Bonds. By purchasing 2010 Series A Bonds each Owner shall be deemed to have consented to any or all of the amendments described in this Section 10.

- 10.1. Amendments that reduce Annual Second Lien Bond Debt Service by the amount of any federal interest subsidies for Second Lien Bonds that are issued as Build America Bonds or similar obligations that are eligible for federal interest subsidies.
- 10.2. Amendments that reduce Combined Annual Debt Service by the amount of any federal interest subsidies for First Lien Bonds that are issued as Build America Bonds or similar obligations that are eligible for federal interest subsidies.
- 10.3. Amendments that pledge federal interest subsidies for Build America Bonds and similar obligations to pay Second Lien Bonds, but exclude those subsidies from "Gross Revenues" so that the subsidies are not both added to Gross Revenues and applied to reduce annual debt service.
- 10.4. Amendments excluding non-cash expenses and extraordinary, non-recurring expenditures from the definition of "Operating Expenses."
- 10.5. Amendments allowing debt service on obligations that finance Operating Expenses to be treated as Operating Expenses.
- 10.6. Amendments allowing the City to establish subaccounts in the Second Lien Bond Reserve Account that secure multiple Series of Second Lien Bonds.
- 10.7. Amendments allowing the City to determine the reserve requirement for subaccounts in the Second Lien Bond Reserve Account, as long as those subaccounts do not secure the 2010 Series A Bonds.
- 10.8. Amendments allowing the City to combine subaccounts in the Second Lien Bond Reserve Account, as long as those subaccounts do not secure the 2010 Series A Bonds.
- 10.9. Amendments clarifying that the ratings requirements for a Reserve Credit Facility Provider would apply only at the time the Reserve Credit Facility is issued.
- 10.10. Amendments clarifying that a Reserve Credit Facility continues to be valued at the amount that is available to be drawn on it unless: Net Revenues are below 130% of Combined Annual Debt Service, and all ratings on the Reserve Credit Facility Provider and its reinsurers or guarantors are either withdrawn or reduced below investment grade.
- 10.11. Amendments specifying that a Reserve Credit Facility shall have no value when the Net Revenues are below 130% of Combined Annual Debt Service, and all ratings on the Reserve Credit Facility Provider and its reinsurers or guarantors are either withdrawn or reduced below investment grade.
- 10.12. Amendments allowing the City to replenish a subaccount in the Second Lien Bond Reserve Subaccount over five years, if that subaccount has a deficiency because the Reserve Credit Facility has no value because of circumstances described in Section 10.11.



- 10.13. Amendments clarifying that the City may issue additional Second Lien Bonds when a subaccount in the Second Lien Bond Reserve Account contains an amount that is less than its reserve requirement, but only if all required deposits to replenish the subaccount have been made when the Second Lien Bonds are issued.
- 10.14. When all First Lien Bonds are paid or defeased, amendments that remove any references to the First Lien Bonds, that replace references to Combined Annual Debt Service with references to Annual Second Lien Bond Debt Service, to change all references to Second Lien Bonds to "First Lien Bonds", and to make related, conforming changes.
- 10.15. Amendments conforming related provisions of the Master Declaration to the amendments that are authorized by Section 10 and by Section 11 of the Master Declaration, and restating the Master Declaration to include all of those amendments.

Dated as of the \_\_\_\_\_ day of \_\_\_\_\_, 2010.

**City of Portland, Oregon**

By: \_\_\_\_\_  
Eric H. Johansen, Debt Manager

**Exhibit A  
Form of 2010 Series A Bond**

No. R-«BondNumber»

\$«PrincipalAmtNumber»

United States of America  
State of Oregon  
Counties of Multnomah, Washington and Clackamas  
**City of Portland**  
Second Lien Sewer System Revenue Bond, 2010 Series A

**Dated Date:** \_\_\_\_\_, 2010  
**Interest Rate Per Annum:** «CouponRate»%  
**Maturity Date:** June 15, «MaturityYear»  
**CUSIP Number:** 736742«CUSIPNumbr»  
**Registered Owner:** -----Cede & Co.-----  
**Principal Amount:** -----«PrincipalAmtSpelled» Dollars-----

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

This 2010 Series A Bond is not a general obligation or liability of the City, and is payable solely from the Net Revenues of the Sewer System as provided in the Amended and Restated Master Second Lien Sewer System Revenue Bond Declaration dated \_\_\_\_\_ (the “Master Declaration”) and the supplemental bond declaration executed as of \_\_\_\_\_, 2010 (the “2010 Series A Bond Declaration”). The City covenants and agrees with the owner of this 2010 Series A Bond that it will keep and perform all of the covenants in this 2010 Series A Bond, the 2010 Series A Bond Declaration, and in the Master Declaration. The City has pledged the Net Revenues of the Sewer System to the payment of principal and interest on this 2010 Series A Bond. The lien of the pledge that secures this 2010 Series A Bond is subordinate to the lien on the Sewer System revenues that secures obligations that the City has issued, and may issue in the future to refund currently outstanding First Lien Bonds, under the City Ordinance \_\_\_\_\_, the First Lien Bond Ordinance.

Unless the book-entry-only system is discontinued, notice of any call for redemption shall be given as required by the Letter of Representations to The Depository Trust Company, as referenced in the Master Declaration. Interest on any 2010 Series A Bond or 2010 Series A Bonds so called for redemption shall cease on the redemption date designated in the notice. The City's paying agent and registrar, which is currently U.S. Bank National Association, in Portland, Oregon (the “Registrar”), will notify The Depository Trust Company of any 2010 Series A Bonds called for redemption not less than 30 days prior to the date fixed for redemption. If the book-entry-only system is discontinued, notice of redemption shall be given by first-class mail, postage prepaid at least 30 days and not more than 60 days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the Bond register.

The 2010 Series A Bonds are initially issued as a book-entry-only security issue with no certificates provided to the 2010 Series A Bondowners. Records of 2010 Series A Bond ownership will be maintained by the Registrar and The Depository Trust Company and its participants.

Should the book-entry-only security system be discontinued, the 2010 Series A Bonds shall be issued in the form of registered 2010 Series A Bonds without coupons in the denominations of \$5,000 or any integral multiple thereof.

Such 2010 Series A Bonds may be exchanged for 2010 Series A Bonds of the same aggregate principal amount, but different authorized denominations, as provided in the Master Declaration.

Any transfer of this 2010 Series A Bond must be registered, as provided in the Master Declaration, upon the 2010 Series A Bond register kept for that purpose by the Registrar. Upon registration, a new registered 2010 Series A Bond or 2010 Series A Bonds, of the same series and maturity and in the same aggregate principal amount, shall be issued to the transferee as provided in the Master Declaration. The Registrar and the City may treat the person in whose name this 2010 Series A Bond is registered as its absolute owner for all purposes, as provided in the Master Declaration.

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

This 2010 Series A Bond is one of a series of \$\_\_\_\_\_ aggregate principal amount of Second Lien Sewer Revenue Bonds, 2010 Series A, of the City, and is issued by the City for the purpose of financing improvements to the City's Sewer System in full and strict accordance and compliance with all of the provisions of the Constitution and Statutes of the State of Oregon and the charter of the City.

The 2010 Series A Bonds are subject to optional and mandatory redemption under the terms stated in the 2010 Series A Bond Declaration.

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

IT IS HEREBY CERTIFIED, RECITED, AND DECLARED that all conditions, acts, and things required to exist, to happen, and to be performed precedent to and in the issuance of this 2010 Series A Bond have existed, have happened, and have been performed in due time, form, and manner as required by the Constitution and Statutes of the State of Oregon; that the issue of which this 2010 Series A Bond is a part, and all other obligations of such City, are within every debt limitation and other limits prescribed by such Constitution and Statutes.

IN WITNESS WHEREOF, the City Council of the City of Portland, Oregon, has caused this 2010 Series A Bond to be signed by facsimile signature of its Mayor and attested by facsimile signature of its Auditor as of the date indicated above.



**City of Portland, Oregon**

Sam Adams, Mayor

\_\_\_\_\_, Auditor

[STATEMENT OF INSURANCE]

THIS 2010 Series A BOND SHALL NOT BE VALID UNLESS PROPERLY AUTHENTICATED BY THE REGISTRAR IN THE SPACE INDICATED BELOW.

This 2010 Series A Bond is one of a series of \$\_\_\_\_\_ aggregate principal amount of Second Lien Sewer System Revenue Bonds, 2010 Series A, of the City, issued pursuant to the 2010 Series A Bond Declaration and the Master Declaration both described herein.

Date of authentication: \_\_\_\_\_, 2010.

**U.S. Bank National Association**, as Registrar

\_\_\_\_\_  
Authorized Officer

ASSIGNMENT

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

(Please insert social security or other identifying number of assignee)  
this 2010 Series A Bond and does hereby irrevocably constitute and appoint \_\_\_\_\_  
\_\_\_\_\_ as attorney to transfer this 2010 Series A 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 2010 Series A 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 2010 Series A 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.



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

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## INTRODUCTION TO FINANCIAL STATEMENTS

The financial statements of the City have been audited by independent certified public accountants for the fiscal years 2005, 2006, 2007, 2008, and 2009.

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

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

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

The following pages in this Appendix C are excerpted from the Comprehensive Annual Financial Reports of the City for the Fiscal Years ending June 30, 2005 through June 30, 2009.

**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 2010 SERIES A BONDS AND IS THEREFORE NOT ASSOCIATED WITH THE OFFERING OF THE 2010 SERIES A BONDS.**



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

	2005	2006	2007	2008	2009
<b>ASSETS</b>					
Current assets (unrestricted):					
Cash and investments	\$163,989,057	\$81,006,622	\$80,808,649	\$54,578,217	\$77,591,298
Receivables					
Accounts, net	15,834,267	19,075,520	32,655,778	32,187,406	36,021,211
Assessments	2,794,022	3,461,867	1,529,836	3,294,741	4,938,001
Advances	-	-	-	-	10,000
Accrued interest	790,747	1,676,337	2,388,785	2,143,859	1,891,102
Due from other funds	1,163,644	2,039,637	1,257,138	1,540,000	1,303,924
Due from component unit	-	-	107,925	4,000	-
Internal loans	3,200,000	6,000,000	-	-	-
Inventories	956,818	916,298	946,641	1,051,032	909,564
Prepaid expenses	-	-	3,346,355	2,335,940	2,113,087
Total current assets (unrestricted)	188,718,378	114,311,015	123,004,030	97,097,565	124,943,262
Current assets (restricted):					
Cash and investments	-	249,163,164	99,518,219	-	-
Total current assets (restricted)	-	249,163,164	99,518,219	-	-
Total current assets	188,718,378	363,474,179	222,522,249	97,097,565	124,943,262
Noncurrent assets (unrestricted):					
Capital assets:					
Land	39,870,038	41,420,491	42,156,977	43,792,483	46,657,942
Plant, buildings and improvements	16,076,180	15,880,516	16,927,466	20,080,704	20,392,764
Machinery and equipment	19,606,566	26,486,786	25,062,548	27,001,621	28,311,433
Infrastructure	1,432,570,519	1,480,375,655	1,999,054,276	2,048,170,133	2,089,164,385
Construction in progress	438,036,949	558,757,198	224,779,616	369,266,800	505,635,924
Capitalized leases	4,143,081	4,143,081	4,143,081	306,728	306,728
Accumulated depreciation and amortization	(176,043,167)	(193,126,403)	(211,625,820)	(236,386,793)	(263,805,874)
Capital assets net of accumulated depreciation and amortization	1,774,260,166	1,933,937,324	2,100,498,144	2,272,231,676	2,426,663,302
Pre-paid expense	27,448,722	29,764,260	25,200,362	24,076,182	22,952,002
Total non-current assets (unrestricted)	1,801,708,888	1,963,701,584	2,125,698,506	2,296,307,858	2,449,615,304
Noncurrent assets (restricted):					
Cash and investments	-	-	-	257,817,270	72,203,826
Total noncurrent assets	1,801,708,888	1,963,701,584	2,125,698,506	2,554,125,128	2,521,819,130
Total assets	\$1,990,427,266	\$2,327,175,763	\$2,348,220,755	\$2,651,222,693	\$2,646,762,392

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

	2005	2006	2007	2008	2009
<b>LIABILITIES</b>					
Current liabilities (payable from unrestricted assets):					
Accounts payable	\$12,476,099	\$15,238,116	\$16,521,044	\$21,047,319	\$18,112,711
Compensated absences	2,563,369	2,655,261	2,419,529	2,127,649	2,098,956
Due to component unit	-	34,967	-	390,000	1,814,662
Due to other funds	-	-	-	140,000	-
Deferred/unearned revenue	8,444	731,650	528,904	597,833	683,732
Capital leases payable	374,394	397,282	423,327	54,357	84,772
Revenue bonds payable	34,020,000	40,768,097	42,958,035	47,711,479	53,284,499
Notes and loans payable	30,124	294,370	1,011,462	1,141,064	1,157,893
Interest payable	4,602,098	7,828,180	7,457,086	12,086,845	7,656,185
Other liabilities	13,356,271	15,367,920	1,620,334	1,030,206	342,333
Total current liabilities (unrestricted)	67,430,799	83,315,843	72,939,721	86,326,752	85,235,743
Noncurrent liabilities:					
Compensated absences	54,652	167,721	497,648	858,186	1,422,569
Revenue bonds payable	1,036,889,060	1,264,236,541	1,215,578,759	1,447,764,241	1,387,785,456
Notes and loans payable	2,385,375	12,766,380	20,343,969	20,003,965	18,877,070
Capital leases payable	958,555	561,273	139,129	84,771	-
Prepaid sewer assessment	88,347	112,247	211,882	37,698	37,698
Accrued interest payable	1,435,776	1,993,870	2,597,972	3,249,918	3,954,617
Other postemployment benefits	-	-	-	363,229	709,049
Total noncurrent liabilities	1,041,811,765	1,279,838,032	1,239,369,359	1,472,362,008	1,412,786,459
Total liabilities	1,109,242,564	1,363,153,875	1,312,309,080	1,558,688,760	1,498,022,202
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	827,100,979	910,368,215	952,798,979	1,045,993,331	1,065,106,461
Restricted for debt service	-	-	-	-	200,000
Unrestricted	54,083,723	53,653,673	83,112,696	46,540,602	83,433,729
Total net assets	\$881,184,702	\$964,021,888	\$1,035,911,675	\$1,092,533,933	\$1,148,540,190

Source: City of Portland audited financial statements.

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

	2005	2006	2007	2008	2009
Operating revenues:					
Service charges and fees	\$185,994,945	\$200,718,890	\$226,820,340	\$216,810,171	\$226,397,001
Licenses and permits	646,730	733,870	1,041,882	1,287,991	1,094,165
Rents and reimbursements	56,291	57,446	52,809	64,288	55,780
Miscellaneous	4,533,484	3,181,610	4,339,255	1,468,109	712,433
Total operating revenues	191,231,450	204,691,816	\$232,254,286	219,630,559	228,259,379
Operating expenses:					
Salaries and wages	28,810,743	28,151,119	29,839,770	33,099,665	38,918,743
Operating supplies	2,206,370	2,573,596	2,969,429	2,452,405	3,394,636
Professional services	35,460,627	34,938,849	42,506,778	33,962,539	37,765,018
Utilities	4,488,714	5,694,511	6,372,942	7,164,665	5,171,400
Miscellaneous	4,758,992	468,680	5,019,396	7,158,345	1,909,729
Utility license fees	12,684,307	12,314,131	12,809,321	12,809,321	12,809,321
Depreciation expense	17,421,543	18,036,474	19,856,043	25,755,514	29,511,785
Total operating expenses	105,831,296	102,177,360	119,373,679	122,402,454	129,480,632
Operating income (loss)	85,400,154	102,514,456	112,880,607	97,228,105	98,778,747
Non-operating revenues/(expenses):					
Gain (loss) on sale of fixed assets	1,264,358	(403,673)	(934,677)	(904,211)	(252,088)
Investment earnings	3,260,994	5,910,254	14,169,641	9,382,950	7,926,561
Interest expense	(50,457,879)	(28,202,659)	(57,127,754)	(49,620,799)	(50,336,722)
Debt issuance costs	(3,611,363)	(2,089,712)	(1,206,890)	(4,562,818)	(102,499)
Miscellaneous	(632,767)	326,994	738,782	1,335,592	(1,124,180)
Non-operating revenues/(expenses)	(50,176,657)	(24,458,796)	(44,360,898)	(44,369,286)	(43,888,928)
Income (loss) before contributions and transfers	35,223,497	78,055,660	68,519,709	52,858,819	54,889,819
Transfers in	-	-	-	92,000	62,100
Transfers out	-	(275,598)	(518,792)	(693,305)	(799,601)
Capital contributions	2,380,011	5,057,124	3,888,870	4,364,744	2,053,939
Changes in net assets	37,603,508	82,837,186	71,889,787	56,622,258	56,206,257
Total net assets -- beginning, as restated	843,581,194	881,184,702	964,021,888	1,035,911,675	1,092,533,933
Total net assets -- ending	\$ 881,184,702	\$ 964,021,888	\$1,035,911,675	\$1,092,533,933	\$1,148,740,190

Source: City of Portland audited financial statements.

**CITY OF PORTLAND, OREGON  
SEWAGE DISPOSAL FUND  
STATEMENT OF CASH FLOWS  
FISCAL YEAR ENDING JUNE 30**

	2005	2006	2007	2008	2009
<b>CASH FLOWS FROM OPERATING ACTIVITY</b>					
Receipts from customers and users	\$187,913,730	\$195,003,202	\$216,070,179	\$218,055,130	\$221,276,452
Receipts from interfund services provided	218,537	(708,292)	10,837,583	1,183,828	1,980,135
Payments to suppliers	(31,969,007)	(23,915,098)	(24,915,569)	(34,762,701)	(30,947,656)
Payments to employees	(28,554,749)	(27,946,158)	(29,745,575)	(32,667,778)	(38,037,233)
Payments for interfund services used	(25,806,282)	(27,303,062)	(56,773,179)	(24,427,555)	(32,501,504)
Other receipts (payments)	75,802	51,835	15,849	(173,419)	64,555
Net cash provided by operating activities	101,878,031	115,182,427	115,489,288	127,207,505	121,834,749
<b>CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Cash received from other funds	-	-	1,482,114	1,537,664	-
Other noncapital increases	-	-	472,484	922,108	-
Other noncapital decreases	-	-	(91,636)	-	-
Miscellaneous revenues (expenses)	491,413	1,451,174	-	-	-
Transfers in	-	-	-	92,000	62,100
Transfers out	-	(275,598)	(518,792)	(693,305)	(799,601)
Net cash provided (used) by noncapital financing activities	491,413	1,175,576	1,344,170	1,858,467	(737,501)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Proceeds from sale of bonds and notes	403,320,901	275,692,796	202,114,755	529,609,583	33,297
Premium on bonds and notes issued	36,890,389	5,017,847	12,009,938	22,965,687	-
Sale of capital assets	1,666,814	179,878	143,822	123,443	311,639
Acquisition of capital assets	(157,074,421)	(173,240,059)	(183,606,492)	(194,151,954)	(182,453,198)
Principal paid on bonds, notes and capital leases	(271,107,329)	(34,461,939)	(249,484,270)	(311,336,354)	(48,909,205)
Interest paid on bonds, notes and capital leases	(51,969,211)	(26,300,750)	(60,104,432)	(49,272,816)	(60,756,963)
Debt issuance costs	(3,611,363)	(2,089,712)	(1,206,890)	(4,562,818)	(102,499)
Net cash provided (used) by capital related financing activities	(41,884,220)	44,798,061	(280,133,569)	(6,625,229)	(291,876,929)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest on investments	2,766,249	5,024,665	13,457,193	9,627,876	8,179,318
Net increase (decrease) in cash and cash equivalents	63,251,473	166,180,729	(149,842,918)	132,068,619	(162,600,363)
<b>CASH AND CASH EQUIVALENTS July 1, Prior Year</b>	100,737,584	163,989,057	330,169,786	180,326,868	312,395,487
<b>CASH AND CASH EQUIVALENTS June 30, Current Year</b>	\$163,989,057	\$330,169,786	\$180,326,868	\$312,395,487	\$149,795,124
Reconciliation of cash and cash equivalents to the Statement of Net Assets					
Unrestricted cash and cash equivalents					\$77,591,298
Restricted cash and cash equivalents					72,203,826
Total					\$149,795,124

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

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>					
Operating income (loss)	\$85,400,154	\$102,514,455	\$112,880,607	\$97,228,105	\$98,778,747
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization of capital assets	17,421,543	18,036,474	19,856,043	25,755,514	29,511,785
Provision for uncollectible accounts	1,712,565	(37,781)	550,946	484,833	1,224,893
Noncash expenditure adjustment	-	-	-	-	-
Change in assets and liabilities:					
Accounts and contracts receivable	(66,095)	(7,311,033)	(12,105,809)	(770,951)	(6,489,105)
Inventories	(30,343)	(104,391)	141,468	(103,838)	(61,237)
Checks and accounts payable	(3,669,417)	2,762,016	1,282,928	4,526,275	(2,934,608)
Accrued compensated absences	255,994	204,961	94,195	68,658	535,690
Due from (to) other funds	(31,031)	(875,993)	639,607	(178,937)	1,524,738
Internal loans receivable	(2,914,147)	(2,800,000)	6,000,000	-	-
Other assets	-	-	-	-	-
Deferred revenue	216	723,206	(202,746)	68,929	85,899
Accrued claims	-	-	-	-	-
Other accrued liabilities	1,653,214	3,668,740	3,798,592	(234,312)	(687,873)
Net cash provided by operating activities	<u>\$101,878,031</u>	<u>\$115,182,427</u>	<u>\$115,489,288</u>	<u>\$127,207,505</u>	<u>\$121,834,749</u>
<b>Noncash information</b>					
Non-operating prepaid PERS amortization	1,124,180	1,124,180	1,124,180	1,124,180	1,124,180
Capital contribution	2,380,011	4,963,572	3,888,870	4,364,744	2,053,939
Increase in fair value of investments (classified as cash equivalents)	-	-	-	1,152,035	134,351





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**APPENDIX D**  
**LEGAL OPINION**

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\_\_\_\_\_, 2010

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

Subject: \$\_\_\_\_\_ City of Portland, Oregon, Second Lien Sewer System Revenue Bonds,  
2010 Series A

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Portland, Oregon (the “City”) of its Second Lien Sewer System Revenue Bonds, 2010 Series A (the “Bonds”), which are dated as of \_\_\_\_\_, 2010, and are in the aggregate principal amount of \$\_\_\_\_\_. The Bonds are authorized by Oregon Revised Statutes Section 287A.150, City Ordinance No. 183469 adopted by the City Council on January 13, 2010, (the “Ordinance”), an Amended Master Second Lien Sewer System Revenue Bond Declaration dated June 19, 2003, as amended and supplemented, including by a Supplemental Bond Declaration dated as of \_\_\_\_\_, 2010 (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 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 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 Bonds constitute valid and legally binding obligations of the City enforceable in accordance with their terms.
2. The Bonds are special obligations of the City payable solely from revenues of the City’s Sewer System and related amounts that are pledged to pay Second Lien Bonds as provided in the Bond Declaration.
3. Interest on the Bonds is excludable from gross income for federal income tax purposes. Furthermore, interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and is not included in adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations. The portion of this opinion set forth in this paragraph [and the succeeding 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 Bonds in order that the interest on the Bonds be, and continue to be, excludable from gross income for federal income tax purposes. The City has covenanted to comply with all applicable requirements. Failure to comply with these covenants may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

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

5. Interest on the Bonds is exempt from Oregon personal income tax.

We note that the City has not designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b)(3) 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 Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the 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, 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 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 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 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 Bonds and have not represented any other party in connection with the 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

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**APPENDIX E**  
**CONTINUING DISCLOSURE CERTIFICATE**

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## CONTINUING DISCLOSURE CERTIFICATE

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### City of Portland, Oregon Second Lien Sewer System Revenue Bonds 2010 Series A

This Continuing Disclosure Certificate (the "Certificate") is executed and delivered by the City of Portland, Oregon (the "City") in connection with the issuance of the City's Second Lien Sewer System Revenue Bonds, 2010 Series A (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 Section (b)(5) of the Rule.

Section 2. Definitions. Unless the context otherwise requires, the terms defined in this Section shall, for purposes of this Certificate, have the meanings herein specified.

"Beneficial Owner" means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any 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 \_\_\_\_\_, 2010.

"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, 2011, for the fiscal year ended June 30, 2010):

A. The City's previous fiscal year annual financial statements prepared in accordance with the Oregon Local Budget Law (or any successor statute) and in accordance with generally accepted accounting principles so prescribed by the Governmental Accounting Standards Board (or its successors); and,

B. To the extent not included in those annual financial statements, information generally of the type included in the official statement for the Securities under the heading "Annual Disclosure Information."

Section 4. Timing. The information described in Sections 3.A and 3.B above shall be provided on or before nine months after the end of the City's fiscal year. The City's current fiscal year ends June 30. The City may adjust such fiscal year by providing written notice of the change of fiscal year to 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 notice of the occurrence of any of the following events with respect to the Securities, if material:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. unscheduled draws on debt service reserves reflecting financial difficulties;
4. unscheduled draws on credit enhancements reflecting financial difficulties;
5. substitution of credit or liquidity providers or their failure to perform;
6. adverse tax opinions or events affecting the tax status of the security;
7. modifications to the rights of security holders;
8. bond calls;
9. defeasances;
10. release, substitution or sale of property securing repayment of the securities; and
11. rating changes.

Section 6. Termination/Modification. The City's obligations to provide notices of material events shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 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.

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 \_\_\_\_\_, 2010.

**City of Portland, Oregon**

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Eric H. Johansen, Debt Manager



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**APPENDIX F**  
**BEO SYSTEM**

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## BEO SYSTEM

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

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.]
2. DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](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 nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.
5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to

obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.]

[6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.]

7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Securities unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from Issuer or Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC[nor its nominee], Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

[9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.]

10. DTC may discontinue providing its services as securities depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Security certificates are required to be printed and delivered.

11. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.



