

**PRELIMINARY OFFICIAL STATEMENT DATED JUNE 19, 2012**

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

**RATING: Moody's A1**

*In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the City, under existing law: (i) interest on the 2012 Series A Bonds is not excludable from gross income for Federal income tax purposes under the Internal Revenue Code of 1986, as amended (the "Code"); and (ii) assuming continuing compliance by the City with its tax covenants, interest on the 2012 Series B Bonds and 2012 Series C Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code and is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code, except that no opinion is expressed as to the exclusion from gross income of interest on any 2012 Series C Bond for any period during which the 2012 Series C Bond is held by a substantial user of the facilities financed or refinanced with the proceeds of the 2012 Series C Bonds or a related person. In the opinion of Bond Counsel, interest on the 2012 Bonds is exempt from State of Oregon personal income taxation. See "Tax Matters" herein for a more complete description of the opinion of Bond Counsel and the federal tax issues associated with owning 2012 Bonds.*

**City of Portland, Oregon**

**\$73,700,000**

**River District Urban Renewal and Redevelopment Bonds**

**\$24,270,000\* 2012 Series A (Federally Taxable)**

**\$33,645,000\* 2012 Series B (Tax-Exempt Refunding and Governmental Purpose)**

**\$15,785,000\* 2012 Series C (Tax-Exempt Non-AMT Private Activity)**

**BASE CUSIP 73674N**

**DATED:** Date of Delivery

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

The River District Urban Renewal and Redevelopment Bonds, 2012 Series A (Federally Taxable) (the "2012 Series A Bonds"), the River District Urban Renewal and Redevelopment Bonds, 2012 Series B (Tax-Exempt Refunding and Governmental Purpose) (the "2012 Series B Bonds") and the River District Urban Renewal and Redevelopment Bonds, 2012 Series C (Tax-Exempt Non-AMT Private Activity) (the "2012 Series C Bonds") (collectively, the "2012 Bonds"), will be issued in registered book-entry only form, without coupons, in denominations of \$5,000 or integral multiples thereof. The 2012 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 2012 Bonds. While Cede & Co. is the registered owner of the 2012 Bonds (the "Owner") as nominee of DTC, references herein to the Bond Owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the 2012 Bonds. See APPENDIX H—"BOOK-ENTRY SYSTEM" herein.

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

Interest on the 2012 Bonds is payable semi-annually on June 15 and December 15 of each year, beginning December 15, 2012. While the 2012 Bonds are in book-entry form, interest on the 2012 Bonds will be paid through DTC. See APPENDIX H—"BOOK-ENTRY SYSTEM" herein.

The 2012 Bonds are being issued to pay the outstanding balance on lines of credit established to provide interim financing for projects in the River District Urban Renewal Area (the "Area"), to refund all maturities of the River District Urban Renewal and Redevelopment Bonds, 2003 Series A (Tax Exempt), to fund a portion of the Reserve Requirement, and to pay issuance costs.

THE 2012 BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE CITY WHICH ARE SECURED SOLELY BY AND PAYABLE SOLELY FROM THE DIVIDE THE TAXES REVENUES OF THE AREA, AMOUNTS IN THE TAX INCREMENT FUND AND AMOUNTS AVAILABLE FROM ANY RESERVE EQUIVALENT (COLLECTIVELY, THE "SECURITY") AS PROVIDED IN THE BOND DECLARATION. THE 2012 BONDS ARE NOT GENERAL OBLIGATIONS OF THE CITY OR THE PORTLAND DEVELOPMENT COMMISSION, AND ARE NOT SECURED BY OR PAYABLE FROM ANY FUNDS OR REVENUES OF THE CITY OR THE PORTLAND DEVELOPMENT COMMISSION EXCEPT THE SECURITY.

The 2012 Bonds are subject to redemption prior to maturity. See "THE 2012 BONDS—REDEMPTION OF THE 2012 BONDS" herein.

*The 2012 Bonds are offered when, as and if issued by the City and accepted by the Underwriters, subject to prior sale, withdrawal or modification of the offer without notice, to the final approving opinion of Hawkins Delafield and Wood LLP, Bond Counsel, Portland, Oregon, and to certain other conditions. Certain legal matters will be passed upon for the Underwriters by their Counsel, Orrick, Herrington & Sutcliffe LLP, Portland, Oregon. The City expects that the 2012 Bonds will be available for delivery through the facilities of DTC in New York, New York on or about \_\_\_\_\_, 2012.*

**BofA Merrill Lynch**

**Citigroup**

**Wells Fargo Securities**

\* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein is subject to revision, completion or amendment in a final Official Statement. These securities may not be sold nor may an offer to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds in any jurisdiction in which such solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.



## **MATURITY SCHEDULES**

**\$24,270,000\***

**River District  
Urban Renewal and Redevelopment Bonds  
2012 Series A (Federally Taxable)**

<b><u>Due June 15</u></b>	<b><u>Principal Amount*</u></b>	<b><u>Interest Rate</u></b>	<b><u>Price or Yield</u></b>	<b><u>CUSIP No. 73674N (1)</u></b>
2013	\$1,465,000			
2014	1,365,000			
2015	1,625,000			
2016	1,670,000			
2017	1,710,000			
2018	1,760,000			
2019	1,815,000			
2020	1,875,000			
2021	1,945,000			
2022	2,025,000			
2023	2,110,000			
2024	2,200,000			
2025	2,300,000			
2026	405,000			

(1) Registered Trademark 2012, 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

## **MATURITY SCHEDULES (continued)**

**\$33,645,000\***

**River District**

**Urban Renewal and Redevelopment Bonds**

**2012 Series B (Tax-Exempt Refunding and Governmental Purpose)**

<b><u>Due June 15</u></b>	<b><u>Principal Amount*</u></b>	<b><u>Interest Rate</u></b>	<b><u>Price or Yield</u></b>	<b><u>CUSIP No. 73674N (1)</u></b>
2015	\$2,200,000			
2016	2,945,000			
2017	3,095,000			
2018	3,245,000			
2019	3,405,000			
2020	3,580,000			
2021	3,760,000			
2022	3,945,000			
2023	4,145,000			
2031	160,000			
2032	3,165,000			

**\$15,785,000\***

**River District**

**Urban Renewal and Redevelopment Bonds**

**2012 Series C (Tax-Exempt Non-AMT Private Activity)**

<b><u>Due June 15</u></b>	<b><u>Principal Amount*</u></b>	<b><u>Interest Rate</u></b>	<b><u>Price or Yield</u></b>	<b><u>CUSIP No. 73674N (1)</u></b>
2026	\$2,005,000			
2027	2,530,000			
2028	2,655,000			
2029	2,785,000			
2030	2,925,000			
2031	2,885,000			

(1) Registered Trademark 2012, 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, OREGON**

**\$24,270,000\***  
**River District**  
**Urban Renewal and**  
**Redevelopment Bonds**  
**2012 Series A Bonds**  
**(Federally Taxable)**

**\$33,645,000\***  
**River District**  
**Urban Renewal and**  
**Redevelopment Bonds**  
**2012 Series B Bonds**  
**(Tax-Exempt Refunding and**  
**Governmental Purpose)**

**\$15,785,000\***  
**River District**  
**Urban Renewal and**  
**Redevelopment Bonds**  
**2012 Series C Bonds**  
**(Tax-Exempt Non-AMT**  
**Private Activity)**

**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  
Jennifer Cooperman, City Treasurer  
James H. Van Dyke, Interim City Attorney  
  
Jack D. Graham, Chief Administrative Officer  
Richard F. Goward, Jr., Chief Financial Officer

**PORTLAND DEVELOPMENT COMMISSION**

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

Patrick Quinton, Executive Director  
Faye Brown, Chief Financial Officer

**BOND COUNSEL**

Hawkins Delafield & Wood LLP  
Portland, Oregon

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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.

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

This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of, the 2012 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. In making an investment decision, potential investors must rely on their own examination of the City and the terms of the offering, including the merits and risks involved. These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this Official Statement. Any representation to the contrary is a criminal offense. **In connection with this offering, the Underwriters may over allot or effect transactions which stabilize or maintain the market price of the 2012 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued, and if discontinued, then recommenced, at any time.**

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

<b>\$24,270,000*</b>	<b>\$33,645,000*</b>	<b>\$15,785,000*</b>
<b>RIVER DISTRICT URBAN RENEWAL AND REDEVELOPMENT BONDS 2012 SERIES A (FEDERALLY TAXABLE)</b>	<b>RIVER DISTRICT URBAN RENEWAL AND REDEVELOPMENT BONDS 2012 SERIES B (TAX-EXEMPT REFUNDING AND GOVERNMENTAL PURPOSE)</b>	<b>RIVER DISTRICT URBAN RENEWAL AND REDEVELOPMENT BONDS 2012 SERIES C (TAX-EXEMPT NON-AMT PRIVATE ACTIVITY)</b>

**INTRODUCTION**

This Official Statement provides information concerning the City of Portland, Oregon (the “City”), the Portland Development Commission (the “Commission” or “PDC”), the River District Urban Renewal Area (the “Area”), the urban renewal plan established for the Area (the “Plan”), the tax increment revenues for the Area, and the City’s River District Urban Renewal and Redevelopment Bonds, 2012 Series A (Federally Taxable) (the “2012 Series A Bonds”) and River District Urban Renewal and Redevelopment Bonds, 2012 Series B (Tax-Exempt Refunding and Governmental Purpose) (the “2012 Series B Bonds”) and the River District Urban Renewal and Redevelopment Bonds, 2012 Series C (Tax-Exempt Non-AMT Private Activity) (the “2012 Series C Bonds” and collectively with the 2012 Series A Bonds and the 2012 Series B Bonds, the “2012 Bonds”). The 2012 Bonds will be issued in accordance with City Ordinance No. 184212 adopted by the City Council on November 3, 2010, Ordinance No. 183262 adopted on October 21, 2009, Ordinance No. 183200 adopted on September 23, 2009, and Ordinance No. 185348 adopted by the City Council on May 23, 2012, which collectively authorize the issuance of the 2012 Bonds and are referred to as “the Ordinance.”

The Debt Manager executed a bond declaration (the “Master Bond Declaration”) on June 26, 2003, which memorializes terms under which the City may issue obligations (see “SECURITY FOR THE 2012 BONDS—PARITY INDEBTEDNESS” and “—SUBORDINATE INDEBTEDNESS”) which have a lien on the tax increment revenues of the Area. The City’s Debt Manager will also execute and deliver the First Supplemental Bond Declaration dated as of the closing date of the 2012 Bonds (the “First Supplemental Bond Declaration”) to establish the specific terms and conditions of the 2012 Bonds which are issued as Parity Indebtedness under the Master Bond Declaration. The body of this Official Statement briefly summarizes many of the provisions of the Master Bond Declaration and the First Supplemental Bond Declaration (collectively, the “Bond Declaration”) and does not purport to be complete. Reference should be made to the Master Bond Declaration found in Appendix A and the proposed form of the First Supplemental Bond Declaration which is found in Appendix B for full and complete details of their proposed contents. Capitalized terms that are used but not defined in the body of this Official Statement have the meanings defined for those terms in the Bond Declaration.

The Master Bond Declaration includes requirements for amendments with and without written consents of the Owners. In the First Supplemental Bond Declaration, the City has reserved the right to amend the Master Bond Declaration and any Supplemental Bond Declaration to provide for certain matters as described herein and in Appendix B. **By purchase and acceptance of the 2012 Bonds, the Owners of the 2012 Bonds will be deemed to have irrevocably consented to the amendments to the Bond Declaration as described herein and as set forth in Appendix B.** See “SECURITY FOR THE 2012 BONDS—Proposed Amendments” and Appendix B—FIRST SUPPLEMENTAL BOND DECLARATION—Amendments to Master Declaration.”

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\*Preliminary, subject to change.

## **THE 2012 BONDS**

### **DESCRIPTION**

The 2012 Bonds will be issued in registered book-entry-only (“BEO”) form only, without coupons, in denominations of \$5,000 or integral multiples thereof. The 2012 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”). See “BOOK-ENTRY SYSTEM” found in Appendix H.

### **AUTHORIZATION AND PURPOSE**

The 2012 Bonds are being issued under the authority of Article IX, Section 1c and Article XI, Section 11(16) of the Oregon Constitution, Oregon Revised Statutes Chapter 457 and the City Charter. The Ordinance also authorizes the 2012 Bonds and the First Supplemental Bond Declaration.

The 2012 Series A Bonds are being issued to pay the outstanding balance on lines of credit established to provide interim financing for projects in the Area that are not eligible for tax-exempt financing, to fund the Reserve Requirement, and to pay issuance costs. The 2012 Series B Bonds are being issued to pay the outstanding balance on lines of credit established to provide interim financing for projects in the Area that qualify for tax-exempt governmental purpose financing, to refund all maturities of the River District Urban Renewal and Redevelopment Bonds, 2003 Series A (Tax-Exempt) (the “2003 Series A Bonds”), to fund the Reserve Requirement, and to pay issuance costs. See “REFUNDING PLAN” herein. The 2012 Series C Bonds are being issued to pay the outstanding balance on lines of credit established to provide interim financing for projects in the Area that qualify for tax-exempt private activity financing. The lines of credit to be paid with a portion of the proceeds of the 2012 Bonds were provided by Wells Fargo Bank, N.A., which also is serving as one of the underwriters of the 2012 Bonds. See “UNDERWRITING.”

### **FORM**

The 2012 Bonds will be issued subject to the BEO System of registration, transfer and payment operated by DTC, and will be subject in all respects to the rules, regulations and agreements pertaining to such BEO System. In accordance with the BEO System, the 2012 Bonds, when executed and delivered, will be registered in the name of Cede & Co., as registered owner and nominee for DTC. Purchasers of the 2012 Bonds who are the Beneficial Owners thereof will not receive certificates evidencing their ownership interests in the 2012 Bonds. While Cede & Co. is the registered Owner of the 2012 Bonds (in such capacity, the “Owner”) as nominee of DTC, it shall be treated in all respects as the sole Owner of the 2012 Bonds and shall have the right to exercise (in lieu of the Beneficial Owners of the 2012 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 2012 Bonds under the Bond Declaration or applicable law. So long as the 2012 Bonds are subject to the BEO System, all registrations and transfers of Beneficial Ownership of the 2012 Bonds will be made only through the BEO System. See Appendix H herein, for a discussion of the BEO System.

### **MATURITY AND PAYMENT**

The 2012 Bonds mature on June 15 of the years and in the aggregate principal amounts set forth on the inside cover page of this Official Statement and will bear interest from their date of delivery. Accrued and unpaid interest on the 2012 Bonds will be due and payable semiannually on June 15 and December 15 of each year, commencing December 15, 2012.

So long as the 2012 Bonds are subject to the BEO System, all payments of the principal of and interest on the 2012 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 2012 Bonds. The City has no responsibility for the distribution of any payments on the 2012 Bonds by DTC to any DTC Participant or by any DTC Participant to any Beneficial Owner, and shall have no liability whatsoever in the event of any failure by DTC or a DTC Participant to make any such distribution. See “BOOK-ENTRY SYSTEM” in Appendix H herein.

## **REDEMPTION OF THE 2012 BONDS\***

### **Redemption of the 2012 Series A Bonds (Federally Taxable)**

Par Optional Redemption – 2012 Series A Bonds. The 2012 Series A Bonds maturing on or after June 15, \_\_\_\_\_, are subject to optional redemption at the election of the City, prior to their maturity date, on any date on or after June 15, \_\_\_\_\_, in whole or in part (and if in part, in integral multiples of \$5,000) at a redemption price equal to 100 percent of the principal amount thereof, plus accrued but unpaid interest to the date fixed for redemption, from amounts deposited with the Paying Agent by the City and from any other funds available therefor.

Make-Whole Optional Redemption – 2012 Series A Bonds. Prior to the par optional redemption date, the 2012 Series A Bonds are subject to optional redemption by the City prior to their stated maturity dates, as a whole or in part, on any business day, at the “Make-Whole Redemption Price,” plus accrued and unpaid interest on the 2012 Series A Bonds to be redeemed on the date fixed for redemption.

The “Make-Whole Redemption Price” is the greater of (i) 100 percent of the principal amount of the 2012 Series A Bonds to be redeemed and (ii) the sum of the present value of the remaining scheduled payments of principal and interest on the 2012 Series A Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such 2012 Series A Bonds are to be redeemed, discounted to the date on which the 2012 Series A Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the “Treasury Rate” defined below, plus \_\_\_ basis points.

“Treasury Rate” means, with respect to any redemption date for a particular 2012 Series A Bond, the rate per annum, expressed as a percentage of the principal amount, equal to the semi-annual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

“Comparable Treasury Issue” means, with respect to any redemption date for a 2012 Series A Bond, the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the 2012 Series A Bond to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the 2012 Series A Bond to be redeemed.

“Comparable Treasury Price” means, with respect to any redemption date for a 2012 Series A Bond:

(1) the most recent yield data for the applicable U.S. Treasury maturity index from the Federal Reserve Statistical Release H.15 Daily Update (or any comparable or successor publication) reported, as of 11:00 a.m. New York City time, on the Valuation Date; or

(2) if the yield described in (1) above is not reported as of such time or the yield reported as of such time is not ascertainable, the average of four Reference Treasury Dealer Quotations for that redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all quotations obtained by the Designated Investment Banker.

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

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

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date for a 2012 Series A Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the Valuation Date.

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\*Preliminary, subject to change.

“Valuation Date” means a date selected by the City which is at least three (3) Business Days but not more than twenty (20) calendar days prior to the date the Paying Agent is required to give notice of redemption.

### **Selection for Redemption of 2012 Series A Bonds**

In the case of redemptions of 2012 Series A Bonds at the option of the City, the City will select the maturities of the 2012 Series A Bonds to be redeemed.

If the 2012 Series A Bonds are not registered in book-entry only form, any redemption of less than all of a maturity of the 2012 Series A Bonds shall be effected by the Paying Agent among owners on a pro-rata basis subject to minimum Authorized Denominations. The particular 2012 Series A Bonds to be redeemed shall be determined by the Paying Agent, using such method as it shall deem fair and appropriate.

If the 2012 Series A Bonds are registered in book-entry only form and so long as DTC or a successor securities depository is the sole registered owner of the 2012 Series A Bonds, if less than all of the 2012 Series A Bonds of a maturity are called for prior redemption, the particular 2012 Series A Bonds or portions thereof to be redeemed shall be selected on a “Pro Rata Pass-Through Distribution of Principal” basis in accordance with DTC procedures, provided that, so long as the 2012 Series A Bonds are held in book-entry form, the selection for redemption of such 2012 Series A Bonds shall be made in accordance with the operational arrangements of DTC then in effect that currently provide for adjustment of the principal by a factor provided by the Paying Agent pursuant to DTC operational arrangements. If the Paying Agent does not provide the necessary information and identify the redemption as on a Pro Rata Pass-Through Distribution of Principal basis, the 2012 Series A Bonds will be selected for redemption in accordance with DTC procedures by lot.

It is the City’s intent with respect to the 2012 Series A Bonds that redemption allocations made by DTC, the DTC Participants or such other intermediaries that may exist between the City and the Beneficial Owners be made on a “Pro Rata Pass-Through Distribution of Principal” basis as described above. However, the City can provide no assurance that DTC, the DTC Participants or any other intermediaries will allocate redemptions among Beneficial Owners on such basis. If the DTC operational arrangements do not allow for the redemption of the 2012 Series A Bonds on a Pro Rata Pass-Through Distribution of Principal basis as discussed above, then the 2012 Series A Bonds will be selected for redemption in accordance with DTC procedures by lot.

### **Redemption of the 2012 Series B Bonds and the 2012 Series C Bonds (Tax-Exempt)**

Par Optional Redemption – 2012 Series B Bonds and 2012 Series C Bonds. The 2012 Series B Bonds and the 2012 Series C Bonds (collectively, the “Tax-Exempt Bonds”) maturing on or after June 15, \_\_\_\_\_, are subject to optional redemption at the election of the City, prior to their respective maturity dates, on any date on or after June 15, \_\_\_\_\_, in whole or in part (and if in part, from the maturities selected by the City and by lot within a maturity in integral multiples of \$5,000) at a redemption price equal to 100 percent of the principal amount thereof, plus accrued but unpaid interest to the date fixed for redemption, from amounts deposited with the Paying Agent by the City and from any other funds available therefor.

### **Selection for Redemption of Tax-Exempt Bonds**

If fewer than all of the Tax-Exempt Bonds of a maturity are to be redeemed prior to maturity, then (i) if the Tax-Exempt Bonds of such maturity are in book-entry form at the time of such redemption, the Paying Agent is required to instruct DTC to instruct the DTC Participants to select the specific Tax-Exempt Bonds of such maturity for redemption by lot, and neither the City nor the Paying Agent will have any responsibility to ensure that DTC or the DTC Participants properly select such Tax-Exempt Bonds of a maturity for redemption; and (ii) if the Tax-Exempt Bonds of such maturity are not then in book-entry form at the time of such redemption, the Tax-Exempt Bonds of such maturity will be assigned certificate numbers and on each redemption date, the Paying Agent is required to select the specific maturities of such Tax-Exempt Bonds for redemption within a maturity in the order of the assigned certificate numbers.

### **Notice of Redemption**

Unless DTC consents to a shorter period, for any 2012 Bonds which are in book-entry form, the Paying Agent shall notify DTC not less than 20 days prior to the date fixed for redemption or such lesser time as may be permitted under DTC’s operational arrangements then in effect, in the manner required in the City’s Letter of Representations to DTC. No other notice shall be required. See “Administrative Provisions for the 2012 Bonds” in the First Supplemental Bond Declaration in Appendix B, herein.

It shall be the sole responsibility of DTC to give all notices of redemption to DTC Participants, and the DTC Participants, in turn, shall be responsible for giving such notices to the Beneficial Owners. Neither the City nor the Paying Agent will be responsible for giving any notice of redemption to any Beneficial Owner or any DTC Participant, nor shall the City or the Paying Agent be liable for any failure of DTC or any DTC Participant to give any such notice as described above. Interest on any 2012 Bond or 2012 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 2012 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 2012 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 2012 Bonds or portions of 2012 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 2012 Bonds or portions of 2012 Bonds shall cease to bear interest.

### **DEFEASANCE**

The Bond Declaration permits the defeasance of the 2012 Bonds. See also “TAX MATTERS –2012 Series A Bonds – Federally Taxable – Disposition and Defeasance” herein.

### **REFUNDING PLAN**

To achieve debt service savings, the City intends to apply a portion of the proceeds of the 2012 Series B Bonds to refund all maturities of the outstanding 2003 Series A Bonds. Proceeds will be placed in an irrevocable escrow fund to be held by U.S. Bank National Association (the “Escrow Agent”) in an amount sufficient to pay the principal of, interest on, and any redemption premium on the refunded 2003 Series A Bonds. The accuracy of the mathematical computations will be verified by Grant Thornton LLP.

The table below shows the 2003 Series A Bonds that are expected to be refunded with the 2012 Series B Bonds. The 2003 Series A Bonds are expected to be called on June 15, 2013, at a redemption price of 100.00 percent of their principal amount, plus interest accrued to June 15, 2013.

**Table 1**  
**CITY OF PORTLAND, OREGON**  
**Refunding Plan for Outstanding River District Urban Renewal**  
**and Redevelopment Bonds, 2003 Series A (1)**

<b>CUSIP No.</b>	<b>Maturity Date</b>	<b>Principal</b>	<b>Interest</b>
<b><u>73674N</u></b>	<b><u>June 15</u></b>	<b><u>Amount</u></b>	<b><u>Rate</u></b>
AB7	2015	\$745,000	3.25%
AA9	2015	1,690,000	5.00
AC5	2016	155,000	3.45
AD3	2016	3,070,000	5.00
AF8	2017	3,385,000	5.00
AE1	2018	230,000	3.65
AG6	2018	3,320,000	5.00
AH4	2019	3,725,000	5.00
AX9	2020	3,915,000	5.00
AY7	2021	4,110,000	5.00
AJ0	2022	915,000	4.00
AZ4	2022	3,400,000	5.00
AK7	2023	1,390,000	4.00
BA8	2023	3,130,000	5.00
		<hr/>	
		\$33,180,000	
		<hr/>	

Notes:

(1) Preliminary, subject to change.

Source: City of Portland.

## ESTIMATED SOURCES AND USES OF BOND PROCEEDS

The anticipated sources and uses of proceeds from the 2012 Bonds are itemized in the following table.

**Table 2**  
**CITY OF PORTLAND, OREGON**  
**Estimated Sources and Uses of 2012 Bond Proceeds**

	2012 SERIES A	2012 SERIES B	2012 SERIES C	TOTAL
<b>SOURCES:</b>				
Par amount of bonds				
Net original issue premium/(discount)				
Cash contribution				
<b>TOTAL SOURCES</b>				
<b>USES:</b>				
Repayment of lines of credit (1)				
Deposit to refunding escrow				
Underwriters' discount				
Debt service reserve				
Costs of issuance				
<b>TOTAL USES</b>				

Notes:

- (1) Wells Fargo Bank, N.A. which is serving as one of the Underwriters of the 2012 Bonds, provided the lines of credit being repaid with a portion of the proceeds of the 2012 Bonds. See "UNDERWRITING."

Source: City of Portland.

The following table presents the debt service on outstanding Parity Indebtedness, including the 2012 Bonds.

**Table 3**  
**CITY OF PORTLAND, OREGON**  
**Scheduled Debt Service on the Outstanding Parity Indebtedness**  
**as of the Delivery of the 2012 Bonds (1)**

<b>FISCAL YEAR</b>	<b>PARITY</b>				
<b>ENDING</b>	<b>INDEBTEDNESS</b>	<b>2012 SERIES A</b>	<b>2012 SERIES B</b>	<b>2012 SERIES C</b>	
<b>JUNE 30TH</b>	<b>DEBT SERVICE(1) (2)</b>	<b>DEBT SERVICE</b>	<b>DEBT SERVICE</b>	<b>DEBT SERVICE</b>	<b>TOTAL</b>
2013	\$3,113,165	\$	\$	\$	\$
2014	3,116,249				
2015	681,855				
2016	-				
2017	-				
2018	-				
2019	-				
2020	-				
2021	-				
2022	-				
2023	-				
2024	-				
2025	-				
2026	-				
2027	-				
2028	-				
2029	-				
2030	-				
2031	-				
2032	-				
Total	\$6,911,269	\$	\$	\$	

Notes:

- (1) Preliminary, subject to change.  
(2) Debt service for the River District Urban Renewal and Redevelopment Bonds, 2003 Series B. Excludes debt service on the 2003 Series A Bonds, which are expected to be refunded with proceeds of the 2012 Series B Bonds.

Source: City of Portland.



## **SECURITY FOR THE 2012 BONDS**

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

The 2012 Bonds are secured by the taxes which are divided based on the increase in value of property in the Area and which are payable to the City or the Commission under the provisions of Article IX, Section 1c of the Oregon Constitution and ORS Chapter 457, as those provisions exist on the date of the Bond Declaration (the “Divide the Taxes Revenues”). Collected amounts from the Divide the Taxes Revenues and the earnings thereon (collectively, the “River District Tax Increment Revenues” or the “Tax Increment Revenues”) are deposited into the Tax Increment Fund as described herein. See “—FUNDS AND ACCOUNTS – The Tax Increment Fund” below. The 2012 Bonds are additionally secured by a lien on, and pledge of, amounts credited to the Reserve Account.

This Official Statement refers to the amounts that are pledged to the Series of 2012 Bonds as the “Security.” For the 2012 Bonds, “Security” means (i) the River District Divide the Taxes Revenues; (ii) all amounts in the Tax Increment Fund; and, (iii) amounts available under any Reserve Equivalent.

The 2012 Bonds are not secured by any taxing power or tax revenues except the River District Tax Increment Revenues. The City has issued bonds for other urban renewal areas that are secured by additional taxes. See “THE PORTLAND DEVELOPMENT COMMISSION – URBAN RENEWAL AREAS – Collection Options” in Appendix I.

THE 2012 BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE CITY WHICH ARE SECURED SOLELY BY AND PAYABLE SOLELY FROM THE DIVIDE THE TAXES REVENUES OF THE AREA, AMOUNTS IN THE TAX INCREMENT FUND AND AMOUNTS AVAILABLE FROM ANY RESERVE EQUIVALENT (COLLECTIVELY, THE “SECURITY”) AS PROVIDED IN THE BOND DECLARATION. THE 2012 BONDS ARE NOT GENERAL OBLIGATIONS OF THE CITY OR THE COMMISSION, AND ARE NOT SECURED BY OR PAYABLE FROM ANY FUNDS OR REVENUES OF THE CITY OR THE COMMISSION EXCEPT THE SECURITY.

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

The Divide the Taxes Revenues are calculated by multiplying the Incremental Assessed Value of an urban renewal area by the consolidated billing tax rate. The consolidated billing tax rate for the Area is the sum of the tax rates of taxing districts that overlap the Area, except for the urban renewal special levy that is imposed for certain urban renewal areas in existence prior to December 6, 1996. The Incremental Assessed Value is the difference between the Assessed Value of all taxable property in the Area from the date the Area was formed (October 21, 1998) adjusted for amendments to the Plan (the “Frozen Base”) and the current Assessed Value of all taxable property in the Area.

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

### **MAXIMUM INDEBTEDNESS**

The Maximum Indebtedness for the Area has been increased to \$489,500,000. The Maximum Indebtedness limits the principal amount of indebtedness (except refunding indebtedness of the Area) and all direct expenditures of Divide the Taxes Revenues except expenditures for interest on indebtedness. See “AREA PROPERTY VALUES, TAX INCREMENT REVENUES, AND INDEBTEDNESS – MAXIMUM INDEBTEDNESS” herein.

Under current law the City and PDC may only increase the Maximum Indebtedness for the Area again if the City and PDC obtain the concurrence of jurisdictions imposing 75 percent or more of the permanent operating taxes in the Area, during the year preceding the increase.

## REVENUE SHARING

At its 2009 Regular Session, the Oregon Legislature adopted House Bill (“HB”) 3056, which made very substantial changes to Oregon’s tax increment collection statutes. HB 3056 restricted the amount of Maximum Indebtedness that new urban renewal plans may have and required that annual increases in tax increment revenue collections be limited once those collections reach specified levels. Limiting increases in tax increment collections allows overlapping taxing bodies to collect additional property taxes, because the overlapping taxing bodies “share” a part of the incremental value of the urban renewal area. This kind of limiting is therefore called “sharing.” HB 3056 also requires older urban renewal areas to share revenues if their Maximum Indebtedness limits are increased. The revenue sharing provisions of HB 3056 are designed to both reduce and stabilize tax increment collections once an urban renewal area is mature and successful. Although tax increment collections to the Area are reduced by revenue sharing, tax increment collections are also stabilized because any reductions in assessed value inside an urban renewal area that occur after sharing begins reduces the value that is “shared” and taxed by overlapping taxing districts before it reduces the Incremental Assessed Value that produces the Divide the Taxes Revenues.

Because the Maximum Indebtedness limit for the Area was increased in July of 2009, HB 3056 required the Area to begin sharing in the next fiscal year (FY 2010-11). The City is required to reduce the Incremental Assessed Value that the county assessor uses to calculate the Divide the Taxes Revenues so that the increase in Divide the Taxes Revenues above the “transition amount” is 25 percent less than the increase would have been if the Area was not required to share revenues. The “transition amount” for an urban renewal area is the amount of Divide the Taxes Revenues that the urban renewal area collected in the year before sharing began. For the Area, the transition amount is \$30,313,927.

Once the amount of Divide the Taxes Revenues that the City is able to collect equals ten percent of the Area’s Maximum Indebtedness limit (\$48.95 million), the City will be required to limit Divide the Taxes Revenues for the Area to \$48.95 million per year.

HB 3056 does not require the assessor to calculate the amount of Divide the Taxes Revenues that a sharing urban renewal area will receive. Instead, HB 3056 implements sharing by requiring the urban renewal agency (or, in the case of Portland, the City) to provide the county assessor with the amount of incremental assessed value that the assessor will use to determine the Divide the Taxes Revenues. The City must provide this amount to the assessor using a formula for incremental assessed value based on historic levels of incremental assessed value growth in the urban renewal area and before the tax levies for other taxing bodies are known. The incremental assessed value that the City provides the assessor is therefore an estimate of the value that will result in the City receiving the amount of Divide the Taxes Revenues that the City is entitled to receive.

If the actual amount of Divide the Taxes Revenues that the City receives is different from the amount the City is entitled to receive, HB 3056 requires the City to “true up” tax increment collections by adjusting the incremental assessed value that the City gives to the assessor in the subsequent year, so that total Divide the Taxes Revenues the City receives are equal to the amount of Divide the Taxes Revenues that the City is entitled to receive for the Area.

For FY 2010-11, the City provided an incremental assessed value to the assessor that was estimated to provide the City with Divide the Taxes Revenues that were equal to the transition amount, plus 75% of the potential increase in Divide the Taxes Revenues for FY 2010-11 above the transition amount. However, in FY 2010-11 the Divide the Taxes Revenues that the City received exceeded the City’s allowable amount by about \$396,000.

For FY 2011-12, the City provided an incremental assessed value to the assessor that was estimated to provide the City with Divide the Taxes Revenues that were equal to the transition amount, plus 75% of the potential increase in Divide the Taxes Revenues for FY 2011-12 above the transition amount, and minus the \$396,000 of excess collection from FY 2010-11. However, in FY 2011-12, the Divide the Taxes Revenues that the City actually received exceeded the City’s allowable amount by about \$1.4 million.

For FY 2012-13, the City expects to provide an incremental assessed value to the assessor that is estimated to provide the City with Divide the Taxes Revenues that will be equal to the transition amount, plus 75% of the potential increase in Divide the Taxes Revenues for FY 2011-12 above the transition amount, and minus the \$1.4 million of excess collection from FY 2011-12.

Because the City is obligated to provide the assessor with the amount of incremental assessed value amount that the assessor must use to calculate Divide the Taxes Revenues for the Area based on historic incremental assessed value growth of the Area and before the tax levies for other taxing bodies are known, the City expects that actual tax increment collections will continue to vary from the amount of Divide the Taxes Revenues that the City is entitled to collect in each fiscal year, and that

the City will continue to adjust the amount it supplies to the assessor in the following year to correct for any variation. The “Divide the Taxes Revenues to be Raised” in Table 7 show the Divide the Taxes Revenues that the county assessor attempts to collect each year using the incremental assessed value that the City submits, including any adjustments to that incremental assessed value to “true up” total Divide the Taxes Revenues. As a result of the sharing and the “true-up” provisions, beginning in FY 2010-2011 the “Divide the Taxes to be Raised” will not be equal to the product of the consolidated billing tax rate and the Incremental Assessed Value.

## **OTHER COVENANTS**

### **Reduction in Area**

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

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

To the extent the City controls property tax exemptions, the City shall not grant or approve any property tax exemption for property inside the Area unless the Debt Manager reasonably projects that the Area, after the exemption is in effect, will have Divide the Taxes Revenues which are at least equal to one hundred ten percent (110%) of the Maximum Annual Debt Service on all then Outstanding Bonds (calculated as if all Outstanding Bonds were part of a single Series). However, many property tax exemptions do not require City approval, such as those granted by state statute for charitable or religious organizations.

## **FUNDS AND ACCOUNTS**

### **The Tax Increment Fund**

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

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

- First, to the Debt Service Account, until the Debt Service Account contains an amount sufficient to pay the Bond Debt Service due in that Fiscal Year;
- Second, to the Reserve Account, until the balance in the Reserve Account is equal to the Reserve Requirement (see “The Reserve Account” below); and
- Third, to the Subordinate Indebtedness Fund, to the extent that any amounts remain after the foregoing deposits have been made.

### The Debt Service Account

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

### The Reserve Account

The City covenants to fund and maintain a balance in the Reserve Account at least equal to the Reserve Requirement for all Outstanding Bonds. The Reserve Requirement is generally equal to the lesser of Maximum Annual Debt Service on all Outstanding Bonds or the amount the City was required to maintain in the Reserve Account prior to issuing a Series of Bonds, plus the largest amount of proceeds of tax-exempt bonds the City may use to fund a reserve under the Internal Revenue Code of 1986, as amended. Amounts credited to the Reserve Account shall be used only to pay Bond principal, interest and premium, but only if amounts in the Debt Service Account are not sufficient.

The Reserve Requirement for all Outstanding Bonds, including the 2012 Bonds, has been funded with cash.

## PARITY INDEBTEDNESS

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

- (A) As of the date of Closing of the Parity Indebtedness, no Event of Default under the Bond Declaration has occurred and is continuing.
- (B) On or before the date of Closing of the Parity Indebtedness the City provides either:
  - 1. a certificate of the Debt Manager stating that the Divide the Taxes Revenues for the Base Period at least equaled one hundred twenty five percent (125%) of the Maximum Annual Debt Service on all then Outstanding Obligations, with the proposed Parity Indebtedness treated as Outstanding and all Outstanding Obligations treated as if they were part of a single Series; or,
  - 2. (a) a certificate or opinion of a Qualified Consultant:
    - (i) stating the projected amount of the Divide the Taxes Revenues for the Fiscal Year in which the proposed Parity Indebtedness is issued and the projected amount of the Divide the Taxes Revenues for each of the four Fiscal Years after the Fiscal Year in which the proposed Parity Indebtedness are issued;
    - (ii) concluding that the respective amounts of projected Divide the Taxes Revenues in each of the Fiscal Years described in the preceding paragraph (a) are at least equal to one hundred thirty percent (130%) of the Scheduled Debt Service for each of those respective Fiscal Years on all Outstanding Bonds, with the proposed Parity Indebtedness treated as Outstanding and all Outstanding Bonds treated as if they were part of a single Series;
    - (iii) stating the projected amount of the Divide the Taxes Revenues for the fifth Fiscal Year after the Fiscal Year in which the Parity Indebtedness are issued; and,
    - (iv) concluding that this projected amount described in the preceding paragraph (c) is at least equal to one hundred thirty percent (130%) of the Maximum Annual Debt Service on all Outstanding Bonds, with the proposed Parity Indebtedness treated as Outstanding and all Outstanding Bonds treated as if they were part of a single Series; and
  - (b) a certificate of the Debt Manager stating that the Divide the Taxes Revenues for the Base Period at least equaled one hundred percent (100.00%) of the Maximum Annual Debt Service on all then Outstanding Bonds, with the proposed Parity Indebtedness treated as Outstanding and all Outstanding Bonds treated as if they were part of a single Series.

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

- 1. the refunded Obligations are defeased on the date of delivery of the refunding Parity Indebtedness; and,
- 2. the Annual Debt Service on the refunding Parity Indebtedness does not exceed the Annual Debt Service on the refunded Obligations in any Fiscal Year by more than \$5,000.

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

An Exchange Agreement may be a Parity Exchange Agreement and Parity Indebtedness if the obligation to make City Payments under the Exchange Agreement qualifies as Parity Indebtedness after the Reciprocal Payments under the Exchange Agreement are applied to adjust Annual Debt Service. Any Parity Exchange Agreement shall clearly state that it is a Parity Exchange Agreement and has qualified as Parity Indebtedness under the Bond Declaration. In addition, the City may replace a Parity Exchange Agreement with another Parity Exchange Agreement without qualifying the replacement Exchange

Agreement under Section 5 of the Bond Declaration if the replacement does not increase the Annual Debt Service in any Fiscal Year by more than \$5,000.

## **SUBORDINATE INDEBTEDNESS**

The City may issue Subordinate Indebtedness which shall not be payable from any account of the Tax Increment Fund except the Subordinate Indebtedness Fund or a subaccount of the Subordinate Indebtedness Fund. All Subordinate Indebtedness shall state clearly that it is secured by a lien on or pledge of the Divide the Taxes which is subordinate to the lien on, and pledge of, the Security for the Bonds. See Appendix A, Bond Declaration, Section 6.

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

The City may amend the Bond Declaration for certain purposes without consent of Bondowners, and for other purposes with the consent of 51% of the Owners. See Appendix A, Bond Declaration, Section 8 and Section 10.

## **PROPOSED AMENDMENTS**

Section 5 of the First Supplemental Bond Declaration lists amendments that the City reserves the right to make in the future without the consent of the Owners of the 2012 Bonds. If the City makes these amendments before all 2003 Bonds are paid or defeased, the City must obtain the consent of the insurer of the 2003 Bonds. A portion of the 2003 Bonds are being refunded and defeased by the 2012 Bonds; the non-refunded 2003 Bonds have a final maturity of June 15, 2015 and the City currently expects to take action to make the amendments effective promptly after June 15, 2015, or upon earlier prepayment. **By purchase and acceptance of the 2012 Bonds, the Owners of the 2012 Bonds will be deemed to have irrevocably consented to the amendments to the Bond Declaration as described below and in Section 5 of Appendix B – “FIRST SUPPLEMENTAL BOND DECLARATION.”**

### **Federal Interest Subsidy Amendments**

The City reserves the right to amend the Bond Declaration to provide that: (a) the Bonds will be additionally secured by a pledge of any federal interest subsidies that the City is eligible to receive from the United States for Bonds (“Federal Interest Subsidy”), such as the subsidies that were available for “Build America Bonds” and (b) the definition of “Annual Debt Service” and “Maximum Annual Debt Service” will be amended to reduce debt service by the amount of scheduled Federal Interest Subsidies for purposes of satisfying tests under the Bond Declaration, including the issuance of Parity Indebtedness.

### **Amendments Related to Reserve Equivalents**

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

### **Amendments Relating to Reserves for Future Parity Indebtedness**

The City reserves the right to amend the Bond Declaration to create separate subaccounts in the Reserve Account. If the City makes this amendment, all amounts credited to the Reserve Account for any Bonds issued before the amendment is made (including the 2012 Bonds) will be placed in a single subaccount (the “Prior Bonds Reserve Subaccount”) that will secure those Bonds, and may also secure additional Series of Bonds if the City funds the Prior Bonds Reserve Subaccount at the Reserve Requirement, calculated based on all Series of Bonds that are secured by the Prior Bonds Reserve Subaccount. The City will remain obligated to use Tax Increment Revenues to maintain the balance in the Prior Bonds Reserve Subaccount at the Reserve Requirement.

The City also reserves the right to amend the Bond Declaration to provide that future Series of Bonds will not be secured by the Prior Bonds Reserve Subaccount, and will be secured by one or more separate subaccounts (the “New Subaccounts”). The City may determine the funding requirements for those New Subaccounts, and will not be obligated to fund those subaccounts at an amount that is equal to the Reserve Requirement. Bonds that are secured by New Subaccounts will not be secured by the Prior Bonds Reserve Subaccount.

## **General Covenant Amendments**

Section 7.7 of the Master Bond Declaration currently obligates the City to not reduce Divide the Taxes Revenues unless the City projects that the Divide the Taxes Revenues will be at least one hundred and ten percent (110%) of the Maximum Annual Debt Service on all Outstanding Bonds. Since the Master Bond Declaration was executed, Oregon law has changed, and Oregon law now allows the City to reduce Divide the Taxes Revenues annually or permanently. The City reserves the right to replace Section 7.7 with the following two covenants: (a) a covenant to not reduce Divide the Taxes Revenues for any single year unless the City projects that Divide the Taxes Revenues will be at least one hundred and ten percent (110%) of the Maximum Annual Debt Service on all Outstanding Bonds; and (b) a covenant to not reduce Divide the Taxes Revenues permanently unless the City projects that Divide the Taxes Revenues will be at least one hundred and thirty percent (130%) of the Maximum Annual Debt Service on all Outstanding Bonds.

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

The City reserves the right to amend any portion of the Master Declaration that affects the insurer of the 2003 Bonds and any provision of the Insurance Agreement for the 2003 Bonds without notice to, or consent of, the Owners of the 2012 Bonds.

## **PARTICULAR RISKS TO BOND OWNERS**

### **GENERAL**

In addition to factors set forth elsewhere in this Official Statement, this section describes certain factors and considerations that purchasers of the 2012 Bonds should carefully consider in connection with an investment in the 2012 Bonds. The following is not meant to present an exhaustive list of the risks and considerations associated with the purchase of any 2012 Bonds (and other considerations that may be relevant to particular investors) and does not necessarily reflect the relative importance of the various factors. Prospective investors are advised to consider the following factors, along with all other information contained or incorporated by reference in this Official Statement, in evaluating whether to purchase the 2012 Bonds.

The 2012 Bonds are special, limited obligations of the City and the Commission and are not secured by the general, unrestricted funds of either the City or the Commission. The River District Tax Increment Revenues and other amounts pledged to pay the Bonds may not be sufficient to pay the 2012 Bonds.

### **RECEIPT OF RIVER DISTRICT TAX INCREMENT REVENUES**

The River District Tax Increment Revenues are generated from the operation of the Oregon property tax system. The City or the Commission must approve budgets and notify the county assessors to collect the Divide the Taxes Revenues. The county assessors must determine the Real Market Value and Assessed Value of property, calculate and collect property taxes and transmit them to the City. Any changes in the practices of the assessors, the property tax laws, or any malfunction of the property tax system may prevent the City from receiving River District Tax Increment Revenues in amounts and at times sufficient to pay the 2012 Bonds. See “THE INITIATIVE PROCESS” herein.

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

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

The Consultant Report assumes that (1) taxing bodies will continue to impose permanent taxes at their maximum legal levels, and (2) property tax laws will not change. See Appendix E, “CONSULTANT REPORT—METHODS, ASSUMPTIONS, AND PROJECTIONS — Step Two: Determine the Consolidated Tax Rate.” If tax rates are reduced far enough below projected levels, Divide the Taxes Revenues could fall below the level required to pay the 2012 Bonds.

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

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

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

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

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

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

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

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

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

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

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

## **MEASURE 5 COMPRESSION**

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

Measure 5 compression reduced the Divide the Taxes Revenues collected in Fiscal Year 2011-12 by approximately 9.7 percent. See “AREA PROPERTY VALUES, TAX INCREMENT REVENUES, AND INDEBTEDNESS – OTHER FACTORS AFFECTING TAX COLLECTIONS.” If governments impose new taxes that are subject to the \$10/\$1,000 limit, those new taxes may increase the amount of compression of the Divide the Taxes Revenues and reduce the River District Tax Increment Revenues that the City collects. See also “PROPERTY TAX AND VALUATION INFORMATION – Section 11b” herein and Appendix E, “CONSULTANT REPORT—METHODS, ASSUMPTIONS, AND PROJECTIONS – Step Three: Forecast Compression Losses.”



## **THE RIVER DISTRICT URBAN RENEWAL AREA**

### **DESCRIPTION AND PURPOSE**

#### **Overview**

Located north of the central business district and east of Interstate 405, the Area is comprised of approximately 351 acres bounded generally by Burnside Street on the south, NW 16<sup>th</sup> Avenue on the west, the northern end of the Terminal One site on the north, and the Willamette River and the boundaries of the Downtown Waterfront Urban Renewal Area on the east. In addition to these general boundaries, a small leg extends south of Burnside to Morrison Street on the south, Oak Street on the north, 5<sup>th</sup> Avenue on the east and Park Avenue on the west. The River District unites four distinct neighborhoods: the Pearl District, which extends from Burnside to Lovejoy and from Broadway to Interstate 405; Terminal One which extends from the Fremont Bridge along the River to the northwest; Tanner Basin/Waterfront which extends from Lovejoy to Terminal One and from the Northwest Industrial Sanctuary on the west side of the River; and the Industrial Sanctuary which is roughly bounded by Interstate 405 on the west, the Hoyt Street Railyards on the east, Lovejoy Street on the south and Naito Parkway on the north.

In 2009, the boundaries of the Area were amended, resulting in a net increase of 41.98 acres. The amendment added 40.47 acres of the Old Town/Chinatown District which was formerly incorporated into the Downtown Waterfront Plan. Another 9.76 acres located in the retail/commercial core of downtown Portland were also added. These properties, which were formerly in the South Park Blocks and the Downtown Waterfront Plans, include the Firestone site, Fairfield Hotel, Lincoln Building, O'Bryant Square, McCoy Building, 10<sup>th</sup> and Yamhill site, and the east retail core in the area of Pioneer Square. Finally, the amendment deleted approximately 8.25 acres of right-of-way under the I-405 freeway. Boundaries of the Area are shown on the map on the following page.



## HISTORIC COMMISSION INVESTMENT IN THE AREA

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

**Table 4**  
**CITY OF PORTLAND, OREGON**  
**River District Urban Renewal Area**  
**PROJECT EXPENDITURES BY CATEGORY**  
**(FY 2000-01 through FY 2010-11)**

<b>Project Category</b>	<b>Amount (1)</b>
Business Development	\$4,680,160
Property Redevelopment	60,147,381
Housing	82,261,519
Infrastructure	47,043,667
Transfers – Indirect (2)	34,347,177
Administration (3)	250,703
<b>Total</b>	<b>\$228,730,607</b>

Notes:

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

Source: Portland Development Commission.

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

- Generate new private investment and improve the tax base on vacant and underutilized land by developing a wide range of new housing units, new commercial opportunities and open space, all oriented to the Willamette River;
- Retain and enhance Union Station's function as a public asset and transportation center; and
- Foster a "24-hour" city environment for residents, visitors, and employees

### **Business Development and Property Redevelopment**

The Commission has invested over \$64.8 million in the form of loans and grants to varying types of businesses. The Commission also has provided funding for land assembly and financial assistance for the renovation of existing buildings and construction of new buildings through several grant and loan programs. Significant project investments include Brewery Blocks redevelopment, Vestas Headquarters (to be located in the former Meier and Frank Warehouse), The Nines (a hotel located in the former Meier and Frank Building), and Centennial Mills acquisition. Investments have been made throughout the Area in the aggregate amounts of \$1.4 million for storefront grants and \$4.3 million for business finance lending over the FY 2000-01 through FY 2010-11 period.

### **Housing**

The Commission's investment in housing projects in urban renewal areas is guided by City policy. On October 25, 2006, the City Council adopted Ordinance No. 180547, which instituted a City policy to allocate tax increment financing resources for the development, preservation and rehabilitation of housing affordable to households with incomes below 80 percent of median family income ("MFI"). This ordinance was amended by Ordinance 180889 in April 2007 to allow funds to be used for homeownership for households with incomes up to 100 percent MFI under certain conditions.

Ordinance No. 180889 incorporated an Implementation Plan and Income Guidelines and provided that a minimum of 30 percent of total materials and services, capital outlay, and financial assistance dollars be spent in the Area on affordable

housing after July 1, 2006, through the life of the Area. Through FY 2010-11, actual spending was 35 percent of this total. The Implementation Plan noted that the policy would be considered as part of the annual Commission budgeting process during which the Commission would identify a five-year housing expenditure target and allow budgeted funds to be carried forward to future budget years in the event they are not spent in a particular budget year.

On November 16, 2011, City Council adopted Ordinance No. 185007, which instituted a revised policy for tax increment financing resources for the development, preservation and rehabilitation of housing. The revised policy reaffirmed existing policies while updating calculation methodology to be based on 30 percent of total tax increment resources as opposed to 30 percent of total materials and services, capital outlay, and financial assistance dollars. The revised policy took into account historical progress in meeting 30 percent goals while also taking into account the new implementation structure that includes a separate housing bureau apart from PDC.

All affordable housing projects are implemented by the City's Portland Housing Bureau (the "Housing Bureau"). Funding is provided from bond proceeds secured by tax increment revenues provided through the Housing Set Aside Policy, resources allocated through an annual intergovernmental agreement between the Commission and the Housing Bureau, and other sources.

Recent projects funded by the Commission include the Bud Clark Commons, a \$29.5 million investment that includes shelter facilities and 0-30 percent MFI housing units, and the Ramona, a project with 138 units of affordable family housing. Other housing projects completed with funds provided by the Commission include Station Place Housing, Streetcar Lofts, Everett Street Lofts, and Marshall Wells Lofts.

### **Infrastructure Improvements**

A significant portion of Commission resources for the Area have been spent on infrastructure, including the Portland Streetcar Loop Extension, the creation of three parks and the rehabilitation of Union Station. Park investments include Jamison Square, Tanner Springs Park, and The Fields (currently under construction). The Commission originally took ownership of Union Station when it was located in the Downtown Waterfront Urban Renewal Area. The property was transferred to the Area in 2009 through a Plan amendment.

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

Each year the Commission develops a detailed annual budget and an internal five-year capital forecast for internal planning purposes. The table below identifies projects anticipated to be undertaken in the next five years. These projects are expected to be funded with the proceeds of future tax increment debt issues to promote further economic development and growth of the district per the Area Plan, PDC's Strategic Plan and the City's Economic Development Strategy.

**Table 5**  
**CITY OF PORTLAND, OREGON**  
**River District Urban Renewal Area**  
**PROJECT EXPENDITURES BY CATEGORY**  
**(FY 2012-13 through FY 2016-17)**

<b>Project Category</b>	<b>FY 2012-13 Approved</b>	<b>FY 2013-14 Plan</b>	<b>FY 2014-15 Plan</b>	<b>FY 2015-16 Plan</b>	<b>FY 2016-17 Plan</b>	<b>Total</b>
Business Development	\$2,187,500	\$2,675,000	\$175,000	\$175,000	\$3,175,000	\$8,387,500
Property Redevelopment	8,175,042	46,670,907	27,712,449	30,172,669	26,200,226	138,931,293
Infrastructure	8,860,342	506,500	506,500	3,506,500	106,500	13,486,342
Housing	2,172,333	5,026,118	8,003,673	11,496,038	8,008,406	34,706,568
Other (1)	4,436,061	10,824,115	8,676,731	8,310,528	7,576,339	39,823,774
<b>Total</b>	<b>\$25,831,278</b>	<b>\$65,702,640</b>	<b>\$45,074,353</b>	<b>\$53,660,735</b>	<b>\$45,066,471</b>	<b>\$235,335,477</b>

Notes:

(1) Includes Personal Services, Indirect Staff and Administration, and Other Administrative Expenses.

Source: Portland Development Commission.

### **Business Development**

PDC has programmed \$8.4 million for Business Development activities through FY 2016-17. The majority of the budget is programmed for utilizing PDC's Business Incentive Fund ("BIF"). The BIF program is targeted to support PDC's Economic Development Strategy which includes target industry clusters (i.e. Clean Technology, Athletic and Outdoor), high growth businesses and neighborhood economic development.

### **Property Redevelopment**

PDC anticipates investing \$138.9 million in property redevelopment activities between FY 2012-13 and FY 2016-17 to support continued revitalization of the River District. Expected investments include:

- **Commercial Redevelopment Loan Program:** Provides gap financing to building owners and developers wishing to bring more commercial space into productive use. Focus is to support development of properties that have moved into the Area from Old Town-Chinatown and focuses on maximizing job creation for cluster industries.
- **Post Office:** Predevelopment, relocation/acquisition related to the United States Post Office at 10<sup>th</sup> and Hoyt Street. PDC is negotiating a purchase and leaseback structure with the U.S. Postal Service.
- **Centennial Mills:** Disposition and redevelopment of the Centennial Mills site with a cluster industry focus.
- **Storefront Grants:** Storefront improvement grants to businesses and building owners that leverage PDC dollars with private or public funds and supports PDC's Economic Development strategy.
- **Multnomah County:** Funding for redevelopment or replacement of Multnomah County buildings in the Area as required by the amended Plan for the Area and ORS 457.
- **10<sup>th</sup> and Yamhill Redevelopment:** Renovation or redevelopment of the City-owned 10<sup>th</sup> and Yamhill Garage to improve retail, transit, and the pedestrian environment.

### **Infrastructure**

Approximately \$13.5 million in infrastructure investments are forecast between FY 2012-13 and FY 2016-17. They include:

- **Fields Park:** Design and construction of the Neighborhood Park at NW 9<sup>th</sup> and Naito Parkway.

- **Union Station:** Renovation of Union Station. Funding will be used for roof repairs and will provide matching funds to the State Transportation Enhancement Grant.

## **Housing**

PDC, through an intergovernmental agreement, expects to invest \$34.7 million in affordable housing activities between FY 2011-12 and FY 2016-17. No specific projects are programmed at this time, however the Portland Housing Bureau will award programmed resources via a Request for Proposal process to develop future affordable rental housing focused on 0-60 percent MFI.

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

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

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

The table below presents a five-year history of Real Market Value and Assessed Value in the Area.

**Table 6**  
**CITY OF PORTLAND, OREGON**  
**River District Urban Renewal Area**  
**HISTORICAL TRENDS IN REAL MARKET AND ASSESSED VALUES**  
**BY PROPERTY TYPE**  
**(FY 2007-08 through FY 2011-12)**

Property Type	REAL MARKET VALUE				
	2007-08	2008-09	2009-10	2010-11	2011-12
Real	\$3,118,420,630	\$3,620,990,220	\$3,851,910,390	\$4,126,446,560	\$3,982,048,550
Personal	108,591,138	116,516,221	123,844,933	134,756,495	129,196,644
Manufactured	0	0	0	9,000	8,010
Utility	195,773,877	229,291,718	185,722,825	203,113,795	227,313,038
Total	\$3,422,785,645	\$3,966,798,159	\$4,161,478,148	\$4,464,325,850	\$4,338,566,242
% Change	18.36%	15.89%	4.91%	7.28%	-2.82%

Property Type	ASSESSED VALUE				
	2007-08	2008-09	2009-10	2010-11	2011-12
Real	\$1,047,046,740	\$1,201,736,650	\$1,461,228,590	\$1,614,540,500	\$1,711,620,950
Personal	108,057,594	115,825,827	123,232,544	133,077,953	127,457,115
Manufactured	0	0	0	0	7,590
Utility	195,329,212	218,892,250	185,709,548	202,554,400	225,300,000
Total	\$1,350,433,546	\$1,536,454,727	\$1,770,170,682	\$1,950,172,853	\$2,064,385,655
% Change	3.97%	13.77%	15.21%	10.17%	5.86%
Incremental AV	\$991,749,182	\$1,177,770,363	\$1,411,486,318	\$1,488,594,879	\$1,602,807,681
% Change	5.48%	18.76%	19.84%	5.46%	7.67%

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

The table below shows Assessed Value (“AV”) from FY 2002-03 through FY 2011-12.

**Table 7**  
**CITY OF PORTLAND, OREGON**  
**River District Urban Renewal Area**  
**ASSESSED VALUE GROWTH AND DIVIDE THE TAXES REVENUES**

Fiscal Year	Assessed Value			Increment. AV % Change	Divide the Taxes to be Raised (1)		Compression Loss	Divide the Taxes Imposed (2)		% Compress. Loss (3)
	Total	Base	Incremental							
2002-03	\$719,104,177	\$358,684,364	\$360,419,813	15.8%	\$7,493,344	\$(390,357)	\$7,102,987			5.2%
2003-04	818,900,274	358,684,364	460,215,910	27.7%	10,131,515	(762,554)	9,368,961			7.5%
2004-05	891,465,172	358,684,364	532,780,808	15.8%	11,651,170	(759,123)	10,892,047			6.5%
2005-06	1,103,470,069	358,684,364	744,785,705	39.8%	14,467,313	(692,750)	13,774,563			4.8%
2006-07	1,298,871,830	358,684,364	940,187,466	26.2%	18,594,934	(774,624)	17,820,310			4.2%
2007-08	1,350,433,546	358,684,364	991,749,182	5.5%	21,256,160	(991,189)	20,264,971			4.7%
2008-09	1,536,454,727	358,684,364	1,177,770,363	18.8%	24,568,879	(1,086,343)	23,482,535			4.4%
2009-10	1,770,170,682	358,684,364	1,411,486,318	19.8%	30,313,927	(1,554,799)	28,759,128			5.1%
2010-11 (4)	1,950,172,853	461,577,974	1,488,594,879	5.5%	31,896,867	(2,013,130)	29,883,737			6.3%
2011-12	2,064,385,655	461,577,974	1,602,807,681	7.7%	34,977,373	(3,406,094)	31,571,279			9.7%

Notes:

- (1) Prior to Measure 5 Compression. Beginning in Fiscal Year 2010-11, Divide the Taxes Revenues to Be Raised and Divide the Taxes Revenues Imposed include the effects of “revenue sharing” as required by Oregon Revised Statutes 457.470. See “SECURITY—REVENUE SHARING” and “—OTHER FACTORS AFFECTING DIVIDE THE TAXES REVENUES—Impacts of Revenue Sharing” herein.
- (2) After Measure 5 Compression.
- (3) Also includes miscellaneous adjustments by county assessor.
- (4) Reflects amendment of Area boundaries to include property formerly in Downtown Waterfront and South Park Blocks urban renewal areas.

Sources: Multnomah County Division of Assessment, Recording and Taxation; Washington County Department of Assessment and Taxation; Clackamas County Department of Assessment and Taxation; City of Portland.

## Property Types and Values

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



**Table 8**  
**CITY OF PORTLAND, OREGON**  
**History of Changed Property Ratios by Property Type**  
**(Multnomah County)**

<b>Fiscal Year Ending June 30</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>
Residential	0.5159	0.5046	0.5515	0.6040	0.6931
Commercial	0.4660	0.4345	0.4425	0.4549	0.4883
Industrial	1.0000	0.7649	0.7754	0.8750	0.8376
Multi-Family	0.5639	0.5500	0.5461	0.5420	0.5644
Recreational	0.5841	0.6223	0.6381	0.6565	0.7087
Miscellaneous	0.7221	0.7455	0.6961	0.6863	0.6724
Personal Property	1.0000	1.0000	1.0000	1.0000	1.0000

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

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

**Table 9**  
**CITY OF PORTLAND, OREGON**  
**River District Urban Renewal Area**  
**ASSESSED AND REAL MARKET VALUE BY PROPERTY TYPE**  
**(FY 2011-12)**

<b>Property Class</b>	<b>Assessed Value</b>	<b>% of Total</b>	<b>Real Market Value</b>	<b>AV/RMV Ratio</b>
Real Property				
Residential	\$868,784,030	42.1%	\$1,221,852,780	71.1%
Commercial	689,405,550	33.4%	2,200,146,130	31.3%
Industrial	21,617,240	1.0%	38,901,580	55.6%
Multi-Family	131,814,130	6.4%	521,148,060	25.3%
Subtotal	1,711,620,950	82.9%	3,982,048,550	
Personal Property	127,457,115	6.2%	129,196,644	98.7%
Manufactured Property	7,590	0.0%	8,010	94.8%
Utilities	225,300,000	10.9%	227,313,038	99.1%
Total	\$2,064,385,655	100.0%	\$4,338,566,242	

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

The following table shows the Assessed Value and Real Market Value ratios by ratio category for all property types in the Area. Properties with low AV/RMV ratios have substantial room to grow at the three percent limit established by the Oregon Constitution. Approximately 43 percent of properties have AV/RMV ratios below 70 percent as of FY 2011-12.

**Table 10**  
**CITY OF PORTLAND, OREGON**  
**River District Urban Renewal Area**  
**ASSESSED TO REAL MARKET VALUE RATIOS**  
**(FY 2011-12)**

<b>AV/RMV Ratio</b>	<b>Assessed Value</b>	<b>Percent of Total</b>	<b>Cumulative Percent of Total</b>
Under 30%	\$82,310,560	4.0%	4.0%
30 - 39%	115,305,410	5.6%	9.6%
40 - 49%	379,013,930	18.4%	27.9%
50 - 59%	224,266,820	10.9%	38.8%
60 - 69%	93,929,450	4.5%	43.3%
70 - 79%	446,639,820	21.6%	65.0%
80 - 89%	302,305,270	14.6%	79.6%
90 - 99%	37,198,750	1.8%	81.4%
100%	383,415,645	18.6%	100.0%
<b>Total</b>	<b>\$2,064,385,655</b>	<b>100.0%</b>	

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

#### **Principal Area Taxpayers**

The ten largest property taxpayers in the Area are listed in the following table.

**Table 11**  
**CITY OF PORTLAND, OREGON**  
**River District Urban Renewal Area**  
**TOP TEN PROPERTY TAXPAYERS**

<b>Company Name</b>	<b>Type of Business</b>	<b>2011-12 Assessed Value</b>	<b>Percent of Total Assessed Value</b>
Total River District		\$2,064,385,655	
AT&T Inc.	Communications	99,888,200	4.8%
SPF Brewery Blocks LLC	Commercial mixed use	62,571,230	3.0%
Qwest Wireless	Communications	59,789,900	2.9%
MacQuarie Waterfront Pearl, Inc.	Residential condominium	54,194,260	2.6%
Sobrato Development Company	Apartment building	49,074,330	2.4%
Pioneer Place Limited Partnership	Retail	32,893,440	1.6%
MEPT Brewery Block 2 LLC	Commercial mixed use	26,277,140	1.3%
Block 19 LLC	Residential condominium	25,745,550	1.2%
Block Two LLC	Mixed use	24,818,690	1.2%
Portland Hotel LLC	Hospitality	23,572,277	1.1%
		<b>\$458,825,017</b>	<b>22.10%</b>

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

## PROJECTIONS OF FUTURE REAL MARKET VALUE AND ASSESSED VALUE

Projections of Real Market Value and Assessed Value between FY 2012-13 and FY 2016-17 have been provided in a report (the “Consultant Report”) prepared by ECONorthwest. The Consultant Report forecasts Real Market Value and Assessed Value for real, personal and utility value over the next five years.

The Consultant Report has assumed that no Exception value from new development projects will be added to the tax rolls within the next five fiscal years. The Consultant Report does include new Exception value from property tax exemptions that expire in the five year forecast interval, as shown in the table below. See “CONSULTANT REPORT—METHODS, ASSUMPTIONS, & PROJECTIONS—STEP ONE: CALCULATE THE INCREMENTAL ASSESSED VALUE—ASSUMPTIONS FOR REAL MARKET AND ASSESSED VALUE GROWTH—Methods for Forecasting Real Property Assessed Values—New Development and Exception Value” in Appendix E.

**Table 12**  
**CITY OF PORTLAND, OREGON**  
**River District Urban Renewal Area**  
**EXCEPTION VALUE TO BE ADDED IN FORECAST PERIOD**  
**(FY 2015-16)**

<b>Building Name</b>	<b>10<sup>th</sup> and Hoyt</b>	<b>Burlington Tower</b>	<b>Avenue Lofts</b>	<b>Marshall Lofts</b>
First Year on Tax Roll	2015-16	2015-16	2015-16	2015-16
Total Assessed Value	\$5,596,791	\$26,073,447	\$26,976,185	\$26,478,593
Exception Value	\$5,368,923	\$24,953,218	\$22,992,402	\$24,000,654

Source: ECONorthwest.

The tables below show projected Real Market Value and Assessed Value for property in the Area. Real Market Value of real property is projected to decline slightly in FY 2012-13 and FY 2013-14 before increasing modestly through the remainder of the forecast interval. The largest value losses are expected to be for condominiums, with Real Market Value declines of 6.3 percent and 3.0 percent in FYs 2012-13 and 2013-14, respectively, but commercial property value also is projected to decline by two percent in each of the next two fiscal years. Multi-family housing is projected to grow over the five year period. Personal property and manufactured property Real Market Values are projected to remain stable over the next five years. Because of the volatility of utility property value in the Area, the Consultant Report has projected a decline by three percent each fiscal year for this property type. See Appendix E, “CONSULTANT REPORT—METHODS, ASSUMPTIONS, AND PROJECTIONS” for a description of the methodology used to project Real Market Value in the Area.

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

**Table 13**  
**CITY OF PORTLAND, OREGON**  
**River District Urban Renewal Area**  
**PROJECTED REAL MARKET VALUES**  
**(FY 2012-13 through FY 2016-17)**

<b>Property Type</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>
Real	\$3,876,169,972	\$3,823,717,652	\$3,836,852,253	\$3,911,718,169	\$4,003,549,625
Personal	129,196,644	129,196,644	129,196,644	129,196,644	129,196,644
Manufactured	8,010	8,010	8,010	8,010	8,010
Utility	220,493,645	213,878,819	207,462,439	201,238,548	195,201,372
<b>Total</b>	<b>\$4,225,868,271</b>	<b>\$4,166,801,125</b>	<b>\$4,173,519,346</b>	<b>\$4,242,161,371</b>	<b>\$4,327,955,651</b>
% Change Total RMV	-2.60%	-1.40%	0.16%	1.64%	2.02%

Source: ECONorthwest.

**Table 14**  
**CITY OF PORTLAND, OREGON**  
**River District Urban Renewal Area**  
**PROJECTED ASSESSED VALUES**  
**(FY 2012-13 through FY 2016-17)**

	<b>FY 2012-13</b>	<b>FY 2013-14</b>	<b>FY 2014-15</b>	<b>FY 2015-16</b>	<b>FY 2016-17</b>
Prior Year AV	\$2,064,385,655	\$2,105,281,815	\$2,145,634,013	\$2,188,793,160	\$2,327,623,481
Growth on Base					
Real Property	47,654,933	46,908,252	49,518,704	52,041,963	57,876,565
Personal Property	-	-	-	-	-
Utility Property	(6,759,000)	(6,556,247)	(6,359,557)	(6,168,773)	(5,983,711)
Manufactured Property	227	193	-	-	-
Total Growth/(Loss) on Base	40,896,160	40,352,198	43,159,147	45,873,190	51,892,854
Exception Value (Expiring Exemptions)	-	-	-	92,957,131	-
Total Assessed Value	\$2,105,281,815	\$2,145,634,013	\$2,188,793,160	\$2,327,623,481	\$2,379,516,335
Percent Change in AV	1.98%	1.92%	2.01%	6.34%	2.23%

Source: ECONorthwest.

**Table 15**  
**CITY OF PORTLAND, OREGON**  
**River District Urban Renewal Area**  
**PROJECTED ASSESSED AND INCREMENTAL ASSESSED VALUE GROWTH**  
**(FY 2012-13 through FY 2016-17)**

	<b>FY 2012-13</b>	<b>FY 2013-14</b>	<b>FY 2014-15</b>	<b>FY 2015-16</b>	<b>FY 2016-17</b>
Total Assessed Value	\$2,105,281,815	\$2,145,634,013	\$2,188,793,160	\$2,327,623,481	\$2,379,516,335
Less: Frozen Base	(461,577,974)	(461,577,974)	(461,577,974)	(461,577,974)	(461,577,974)
Incremental Assessed Value	\$1,643,703,841	\$1,684,056,039	\$1,727,215,186	\$1,866,045,507	\$1,917,938,361
Incremental AV Growth (%)	2.55%	2.45%	2.56%	8.04%	2.78%

Source: ECONorthwest.

## PROPERTY TAX RATES

### Historical Trends in the Consolidated Tax Rate

The Divide the Taxes Revenues are calculated by multiplying the Incremental Assessed Value of the Area by the consolidated billing tax rate, which is the sum of the tax rates of taxing districts that overlap the Area, excluding the urban renewal special levy. The following tables show the consolidated billing tax rate for the past five years, and the breakdown of tax rates attributable to each underlying taxing entity for FY 2011-12.

**Table 16**  
**CITY OF PORTLAND, OREGON**  
**River District Urban Renewal Area**  
**CONSOLIDATED TAX RATE (1)**

<b>Fiscal Year</b>	<b>Consolidated Billing Tax Rate (2)</b>
2007-08	\$21.4330
2008-09	20.8605
2009-10	21.4766
2010-11	21.4275
2011-12	21.9691

Notes:

- (1) Rate per \$1,000 of Assessed Value.
- (2) The consolidated billing tax rate fluctuates annually due primarily to changes in local option levies and General Obligation bond levies.

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

**Table 17**  
**CITY OF PORTLAND, OREGON**  
**River District Urban Renewal Area**  
**CONSOLIDATED TAX RATE: FY 2011-12**

<b>Taxing District</b>	<b>Permanent Tax Rate Per \$1,000 A.V.</b>	<b>Local Option And Other Tax Rates (1) Per \$1,000 A.V.</b>	<b>General Obligation Debt Tax Rate Per \$1,000 A.V.</b>	<b>Total Tax Rate Per \$1,000 A.V.</b>
CITY OF PORTLAND	\$4.5770	\$2.8708	\$0.2402	\$7.6880
Multnomah County	4.3434	0.9400	0.1569	5.4403
Metro	0.0966	-	0.2188	0.3154
Port of Portland	0.0701	-	-	0.0701
Tri-County Metropolitan Trans. Dist.	-	-	0.0583	0.0583
West Multnomah Soil & Conservation	0.0732	-	-	0.0732
Subtotal - General Government	\$9.1603	\$3.8108	\$0.6742	\$13.6453
Portland School District	\$5.2781	\$1.9900	\$0.0000	\$7.2681
Portland Community College	0.2828	-	0.3153	0.5981
Multnomah Co. Education Svc. Dist.	0.4576	-	-	0.4576
Subtotal - Schools	\$6.0185	\$1.9900	\$0.3153	\$8.3238
Totals	\$15.1788	\$5.8008	\$0.9895	\$21.9691

Notes:

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

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

## Projected Consolidated Tax Rate

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

**Table 18**  
**CITY OF PORTLAND, OREGON**  
**River District Urban Renewal Area**  
**PROJECTED CONSOLIDATED TAX RATE (1)**

<b>Fiscal Year</b>	<b>Consolidated Billing Tax Rate</b>
2012-13	\$22.0877
2013-14	22.1861
2014-15	21.7194
2015-16	21.6518
2016-17	21.6318

Notes:

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

Source: ECONorthwest.

## OTHER FACTORS AFFECTING DIVIDE THE TAXES REVENUES

### Revenue Sharing

ORS 457.470 requires the City to reduce annual increases in tax increment revenue collections for the Area. Beginning in FY 2010-11, the City must attempt to limit annual increases in tax increment revenues for the Area to 75% of the amount they would have otherwise increased. In addition, when these annual, limited tax increment revenue collections reach \$48,950,000, annual tax increment collections in future years will be limited to \$48,950,000. See “SECURITY FOR THE 2012 BONDS—REVENUE SHARING” herein.

In conformance with the methodology set out under Oregon law, the City instructed the assessor to use an Incremental Assessed Value that produced more tax increment revenues for the Area in the past two fiscal years than the amount permitted under the sharing formula, as shown in Table 19. As required by State law when over-collection of tax revenues occurs, the City reduced the Incremental Assessed Value that the City certified to the assessor in the following year by an amount estimated to make up for the excess collections.

**Table 19**  
**CITY OF PORTLAND, OREGON**  
**River District Urban Renewal Area**  
**ACTUAL TAX INCREMENT REVENUES v.**  
**STATUTORILY REQUIRED AMOUNTS (1)**

<b>Fiscal Year Ending</b>	<b>Actual Amount to Area Based on Estimated AV</b>	<b>Required Amount to Area Based on Sharing Formula</b>	<b>Amount Over/ (Under) to the Area (2)</b>
2010-11	\$31,896,867	\$31,501,132	\$395,735
2011-12	34,977,373	33,591,928	1,385,445

Notes:

- (1) Prior to Measure 5 compression.
- (2) The amount of Incremental Assessed Value certified for the Area in the subsequent fiscal year is adjusted to reduce tax increment revenues by the amount of over-collections. See "SECURITY FOR THE 2012 BONDS—REVENUE SHARING" for more information

Source: City of Portland.

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

Divide the Taxes Revenues may be reduced by Measure 5 compression effects. In FY 2011-12, Measure 5's \$10/\$1,000 of Market Value tax limitation was the primary factor in reducing the projected Divide the Taxes property tax collections in the Area to \$31,571,279 from the authorized amount of \$34,977,372 as shown in Table 7 above.

**Divide the Taxes Revenue Reductions Due to Delinquencies**

Property tax collections are also reduced by delinquencies and discounts. The following table shows property tax collections over the past ten fiscal years. In recent years, taxes collected in the year in which they were levied have generally exceeded 95 percent. Note that, under current State law, tax collections at the county level are pooled, and each taxing jurisdiction (including urban renewal areas) receives a *pro rata* distribution of county-wide collections. This practice has the effect of spreading delinquent payments county-wide.



**Table 20**  
**CITY OF PORTLAND, OREGON**  
**Tax Collection Record for the Last Ten Years (1)**

<b>Fiscal Year</b>	<b>Total Levy (000) (2)</b>	<b>Collected Yr. of Levy (3)</b>	<b>Collected as of 4/1/2012 (3) (4)</b>
2002-03	\$283,978	96.57%	99.98%
2003-04	324,709	96.92%	99.98%
2004-05	332,887	97.11%	99.98%
2005-06	346,053	97.20%	99.99%
2006-07	363,073	97.29%	99.97%
2007-08	394,491	97.07%	99.94%
2008-09	397,822	96.43%	99.56%
2009-10	436,332	96.85%	98.78%
2010-11	445,321	97.22%	98.19%
2011-12	443,510	92.79% (4)	92.79%

Notes:

- (1) Tax collection information is for Multnomah County, which represents approximately 99.5% of the City's Assessed Value. Small portions of Washington and Clackamas Counties are also included in the City's Assessed Value.
- (2) Includes urban renewal special levy and levy amounts allocated to urban renewal divide the taxes. Levy amounts shown are after Measure 5 compression.
- (3) Collections reflect adjustments for cancellation of taxes, allowed discounts, and taxes added to tax roll due to omissions and corrections. Discounts currently represent the largest adjustment to the tax levy; discounts associated with the 2011-12 tax levy represented about 2.5% of that year's levy.
- (4) Partial year collections.

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

## **HISTORICAL AND PROJECTED TAX INCREMENT REVENUES AND DEBT SERVICE**

The following table shows historical collections of Divide the Taxes Revenues in the River District Urban Renewal Area Debt Redemption Fund (the Tax Increment Fund) on a budgetary basis. Financial information presented on a Generally Accepted Accounting Principles (GAAP) basis is shown in Appendix C.

**Table 21**  
**CITY OF PORTLAND, OREGON**  
**River District Urban Renewal Area**  
**REVENUE COLLECTIONS IN THE TAX INCREMENT FUND**  
**AND ANNUAL DEBT SERVICE (PARITY INDEBTEDNESS)**  
**(Budgetary Basis)**

	<b>FY 2006-07</b>	<b>FY 2007-08</b>	<b>FY 2008-09</b>	<b>FY 2009-10</b>	<b>FY 2010-11</b>
<b>Revenues</b>					
Taxes	\$17,267,736	\$19,548,006	\$22,421,202	\$27,806,548	\$28,906,024
Investment/interest income	659,621	569,619	414,623	173,676	105,524
Total Revenues	\$17,927,357	\$20,117,625	\$22,835,825	\$27,980,224	\$29,011,548
 <b>Debt Service</b>					
(Parity Indebtedness)	\$ 4,732,213	\$4,734,139	\$ 4,734,098	\$ 4,731,745	\$ 4,730,070

Source: City of Portland.

Table 22 presents historical and projected property values, consolidated tax rates, Divide the Taxes collections and Annual Debt Service on Parity Indebtedness, including the 2012 Bonds. Projections of the Divide the Taxes Revenues have been provided by ECONorthwest. See Appendix E, “CONSULTANT REPORT—METHODS, ASSUMPTIONS, AND PROJECTIONS – Combining the Steps: Calculating Divide the Taxes Revenues.” Divide the Taxes Revenue projections are based on assumptions regarding growth or decline in Incremental Assessed Value in the Area in each of the fiscal years. Also see “PARTICULAR RISKS TO BOND OWNERS” regarding factors that could affect the Assessed Value of properties in the Area.

The table shows that the City and the Commission expect to collect adequate Divide the Taxes Revenues to pay projected debt service over the planning period. In all years, the Divide the Taxes Revenues are estimated to exceed three times Annual Debt Service on outstanding Parity Indebtedness, including the 2012 Bonds.

The City expects to issue additional Bonds and currently projects the next bond issue would occur within two to three years. The table does not include projected debt service for any such Bonds that may be issued.

**Table 22**  
**CITY OF PORTLAND, OREGON**  
**River District Urban Renewal Area**  
**HISTORICAL AND PROJECTED RMV, AV, TAX RATES, AND DIVIDE THE TAXES REVENUES**

Fiscal Year	HISTORICAL					PROJECTED				
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
<b>Real Market Value</b>	\$3,422,785,645	\$3,966,798,159	\$4,161,478,148	\$4,464,325,850	\$4,338,566,242	\$4,225,868,271	\$4,166,801,125	\$4,173,519,346	\$4,242,161,371	\$4,327,955,651
<b>Assessed Value:</b>										
Frozen Base	\$358,684,364	\$358,684,364	\$358,684,364	\$461,577,974	\$461,577,974	\$461,577,974	\$461,577,974	\$461,577,974	\$461,577,974	\$461,577,974
Incremental Assessed Value	991,749,182	1,177,770,363	1,411,486,318	1,488,594,879	1,602,807,681	\$1,643,703,841	\$1,684,056,039	\$1,727,215,186	\$1,866,045,507	\$1,917,938,361
Total Assessed Value	\$1,350,433,546	\$1,536,454,727	\$1,770,170,682	\$1,950,172,853	\$2,064,385,655	\$2,105,281,815	\$2,145,634,013	\$2,188,793,160	\$2,327,623,481	\$2,379,516,335
<b>Consolidated Tax Rate</b>	\$21.4330	\$20.8605	\$21.4766	\$21.4275	\$21.9691	22.0877	22.1861	21.7194	21.6518	21.6318
<b>Taxes on Increment</b>	\$21,256,160	\$24,568,879	\$30,313,927	\$31,896,867	\$35,212,242	\$36,305,637	\$37,362,635	\$37,514,077	\$40,403,244	\$41,488,459
Less Shared Revenue (1)	-	-	-	-	(234,870)	(2,883,376)	(1,762,177)	(1,800,050)	(2,522,317)	(2,793,633)
<b>Taxes to be Raised (2)</b>	\$21,256,160	\$24,568,879	\$30,313,927	\$31,896,866	\$34,977,373	\$33,422,261	\$35,600,458	\$35,714,028	\$37,880,927	\$38,694,826
Less Compression Loss	(991,189)	(1,086,344)	(1,554,799)	(2,013,129)	(3,406,094)	(4,679,117)	(4,984,064)	(4,999,964)	(5,303,330)	(5,417,276)
<b>Taxes Imposed</b>	20,264,971	23,482,535	28,759,128	29,883,737	\$31,571,279	\$28,743,144	\$30,616,394	\$30,714,064	\$32,577,597	\$33,277,550
Less Discounts, Delinquency	(1,047,682)	(1,462,263)	(1,528,913)	(1,593,895)	(1,925,848)	(1,753,332)	(1,867,600)	(1,873,558)	(1,987,233)	(2,029,931)
<b>Net Divide the Taxes (3)</b>	\$19,217,289	\$22,020,272	\$27,230,215	\$28,289,842	\$29,645,431	\$26,989,813	\$28,748,794	\$28,840,506	\$30,590,364	\$31,247,619
<b>Debt Service:</b>										
2003 Bonds	\$4,734,139	\$4,730,098	\$4,731,745	\$4,730,650	\$3,921,368	\$3,113,165	\$3,116,249	\$681,855	\$0	\$0
2012 Bonds (4) (5)	0	0	0	0	0	4,432,750	4,528,001	6,959,472	7,646,097	7,647,431
Total	\$4,734,139	\$4,730,098	\$4,731,745	\$4,730,650	\$3,921,368	\$7,545,915	\$7,644,250	\$7,641,327	\$7,646,097	\$7,647,431
Debt Service Coverage (4)	4.06	4.66	5.75	5.98	7.56	3.58	3.76	3.77	4.00	4.09

**Notes:**

- (1) Higher estimated loss due to revenue sharing is a result of planned FY 2012-13 “true-up” to allocate excess collections of Divide the Taxes Revenues to overlapping taxing jurisdictions. See “—OTHER FACTORS AFFECTING DIVIDE THE TAXES REVENUES—Revenue Sharing” herein.
- (2) These are the Divide the Taxes Revenues. Beginning in FY 2010-11, amounts are net of shared revenues.
- (3) Net Divide the Taxes are estimated for FYs 2011-12 through FY 2016-17 assuming a delinquency rate of 6.1 percent. Amounts shown are for current year collections and exclude collections of prior year taxes.
- (4) Preliminary, subject to change. Does not include any future River District and Redevelopment Bonds that may be issued.
- (5) Debt service estimates provided by Bank of America/Merrill Lynch.

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

## OUTSTANDING INDEBTEDNESS

As of the date of closing of the 2012 Bonds, the City expects to have \$82,930,000\* of outstanding long-term debt for the Area, including the outstanding principal of the 2012 Bonds.

**Table 23**  
**CITY OF PORTLAND, OREGON**  
**River District Urban Renewal Area**  
**OUTSTANDING LONG-TERM DEBT AS OF CLOSING DATE OF 2012 BONDS**

<b>Issue Name</b>	<b>Dated Date</b>	<b>Maturity Date</b>	<b>Amount Issued</b>	<b>Amount Outstanding</b>
River District Urban Renewal and Redevelopment Bonds, 2003 Series B	6/26/2003	6/15/2015	\$28,760,000	\$9,230,000
River District Urban Renewal and Redevelopment Bonds, 2012 Series A (1)	7/10/2012	6/15/2026	\$24,270,000	\$24,270,000
River District Urban Renewal and Redevelopment Bonds, 2012 Series B (1)	7/10/2012	6/15/2032	\$33,645,000	\$33,645,000
River District Urban Renewal and Redevelopment Bonds, 2012 Series C (1)	7/10/2012	6/15/2031	\$15,785,000	\$15,785,000
Total (1)			<u>\$102,460,000</u>	<u>\$82,930,000</u>

Notes:

(1) Preliminary, subject to change.

Source: City of Portland.

The City uses interim borrowings on lines of credit to fund urban renewal capital improvements until the outstanding balance is large enough to cost-effectively repay the line of credit from proceeds of long-term bonds secured solely by tax increment revenues. As of the Closing Date of the 2012 Bonds, the City had no outstanding principal on lines of credit provided by Wells Fargo Bank, National Association, to provide interim financing for projects in the Area. The City has approximately \$52 million of remaining capacity on a line of credit, which expires on December 31, 2013, and expects to draw on the line as needed to fund projects through its maturity. The City plans to procure a new line of credit for the Area prior to its expiration date and to move any outstanding balance to the new line of credit. The City expects to repay any such line of credit balance with future issues of River District Urban Renewal and Redevelopment Bonds.

## MAXIMUM INDEBTEDNESS

The Maximum Indebtedness amount for the Area is \$489,500,000. (See “SECURITY FOR THE 2012 BONDS – MAXIMUM INDEBTEDNESS.”) The table below shows the estimated Maximum Indebtedness amount remaining after issuance of the 2012 Bonds and other debt issued between FY 1999-00 through the closing date of the 2012 Bonds.

**Table 24**  
**CITY OF PORTLAND, OREGON**  
**River District Urban Renewal Area**  
**MAXIMUM INDEBTEDNESS, AMOUNTS ISSUED, AND AMOUNTS REMAINING**  
**(as of Date of Closing of the 2012 Bonds)**

Maximum Indebtedness Amount	\$489,500,000
Less: Line of Credit Balance Drawn	65,963,033
Long-Term Bonds (1)	39,356,967
Taxable Short-Term Issues (1) (2)	<u>148,070,000</u>
Remaining Maximum Indebtedness (1)	<u>\$236,110,000</u>

Notes:

- (1) Preliminary, subject to change.
- (2) To comply with requirements that tax increment revenues be spent on bonded indebtedness, the City issues bonds with very short maturities (typically overnight). These bonds, known as “du jour bonds” are typically sold to commercial banks. All such bonds are secured by a lien on the Area Tax Increment Revenues that is subordinate to the lien securing the 2012 Bonds and all other Parity Indebtedness.

Source: City of Portland.

## **PROPERTY TAX AND VALUATION INFORMATION**

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

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

### **SECTION 11**

#### **Permanent Tax Rate**

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

#### **Assessed Value**

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

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

#### **Other Property Taxes**

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

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

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

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

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

## **SECTION 11B**

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

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

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

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

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

## **LOCAL OPTION LEVIES**

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

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

A Multnomah County local option levy for libraries was approved in November 2006. This local option levy took effect in FY 2007-08 and extends for five years at a rate of \$0.8900 per \$1,000 of Assessed Value. In November 2008, voters approved a measure to renew a five-year levy for the Children’s Investment Fund at a rate of \$0.4026 per \$1,000 of Assessed Value. This local option levy took effect in FY 2009-10. In May 2011, voters approved a five-year local option levy for Portland Public Schools at a rate of \$1.9900 per \$1,000 of Assessed Value, which took effect in FY 2011-12. Voters also approved a \$0.05 per \$1,000 levy for the Oregon Historical Society which took effect in FY 2011-12.

## **ELIGIBLE ELECTIONS**

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

## **GENERAL OBLIGATION BONDS**

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

## COLLECTION

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

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

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

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

## PROPERTY TAX EXEMPTION PROGRAMS

### City Programs

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

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



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

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

### **Oregon Enterprise Zone Program**

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

### **Other State Programs**

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

## **CITY ECONOMIC CHARACTERISTICS**

The City, with an estimated population of 585,845 as of July 1, 2011, comprises an area of approximately 135 square miles in northwestern Oregon. Located astride the Willamette River at its confluence with the Columbia River, the City is the center of commerce, industry, transportation, finance and services for a metropolitan area with an estimated population of approximately 2.2 million people as of July 1, 2010. The City is the county seat of Multnomah County and is the largest city in Oregon and the second largest city in the Pacific Northwest.

### **PORTLAND-VANCOUVER-BEAVERTON METROPOLITAN STATISTICAL AREA**

The Portland-Vancouver-Beaverton Metropolitan Statistical Area (the “MSA”) consists of Multnomah, Clackamas, Washington, Yamhill, and Columbia counties in Oregon, and Clark and Skamania counties in Washington. Metropolitan statistical areas are based on commuting patterns within a metropolitan area, and are used primarily for labor, employment and unemployment statistics.

Multnomah County encompasses the cities of Portland, Gresham, Troutdale, Fairview and Wood Village. Washington County contains Beaverton, Tigard, Tualatin and Hillsboro. Clackamas County includes Milwaukie, Oregon City, Lake Oswego, West Linn and Happy Valley. The cities of St. Helens and Scappoose are located in Columbia County. Yamhill County includes McMinnville and Newberg. Clark County contains Vancouver and Camas. Skamania County includes Stevenson, Carson and Skamania.

## POPULATION

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

**Table 25**  
**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>
2002	3,504,700	538,180	1,989,550	670,250	463,050	350,850
2003	3,541,500	545,140	2,019,250	677,850	472,600	353,450
2004	3,582,600	550,560	2,050,650	685,950	480,200	356,250
2005	3,631,440	556,370	2,082,240	692,825	489,785	361,300
2006	3,690,505	562,690	2,121,910	701,545	500,585	367,040
2007	3,745,455	568,380	2,159,720	710,025	511,075	372,270
2008	3,791,075	575,930	2,191,784	717,880	519,925	376,660
2009	3,823,465	582,130	2,216,785	724,680	527,140	379,845
2010	3,837,300	583,775	2,229,899	736,785	531,070	376,780
2011	3,857,625	585,845	2,245,400	741,925	536,370	378,480
2002-2011 Compounded						
Annual Rate of Change	1.1%	0.9%	1.4%	1.1%	1.6%	0.8%
2007-2011 Compounded						
Annual Rate of Change	0.7%	0.8%	1.0%	1.1%	1.2%	0.4%

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

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

Notes:

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

Source: Washington State Office of Financial Management; Portland State University, Center for Population Research. Under Oregon 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 except in 2007, was higher than in the nation. Table 26 below shows personal income and per capita income for the MSA compared to similar data for the State and nation.

**Table 26**  
**CITY OF PORTLAND, OREGON**  
**Total Personal Income and Per Capita Income**  
**MSA, Oregon, and the United States**

Year	Total Personal Income MSA (millions)	Per Capita Income		
		MSA	Oregon	USA
2001	\$65,340	\$33,074	\$29,250	\$31,157
2002	66,298	32,973	29,797	31,481
2003	68,222	33,541	30,582	32,295
2004	70,927	34,552	31,650	33,909
2005	74,750	35,868	32,557	35,452
2006	80,794	38,040	34,706	37,725
2007	85,305	39,428	35,950	39,506
2008	88,978	40,950	37,399	40,947
2009	87,894	39,830	35,571	38,846
2010	90,654	40,590	36,427	39,945
2001-2010 Compounded Annual Rate of Change				
	3.7%	2.3%	2.5%	2.8%

Source: Personal income from U.S. Department of Commerce, Bureau of Economic Analysis, as of August 9, 2011.  
Per capita income from U.S. Department of Commerce, Bureau of Economic Analysis as reported by Oregon  
Employment Department as of January 2012.

## LABOR FORCE AND UNEMPLOYMENT

Table 27 below shows the annual average civilian labor force, employment level and unemployment level data that is available for the MSA for the period 2002 through 2011. For March 2012, the seasonally-adjusted unemployment rate for the MSA was 7.9 percent (8.3 percent not seasonally-adjusted) with a resident civilian labor force of 1,197,815. Table 28 below shows the seasonally-unadjusted, average annual unemployment rates for the MSA, the State and the United States for the period 2002 through 2011.

**Table 27**  
**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>	
2002	1,093,526	85,191	7.8%	1,008,335
2003	1,090,119	90,082	8.3	1,000,037
2004	1,089,204	76,576	7.0	1,012,628
2005	1,097,592	64,282	5.9	1,033,310
2006	1,121,350	56,388	5.0	1,064,962
2007	1,142,519	55,274	4.8	1,087,245
2008	1,169,791	69,708	6.0	1,100,083
2009	1,185,625	127,688	10.8	1,057,937
2010	1,189,827	126,187	10.6	1,063,640
2011	1,195,738	109,302	9.1	1,086,436

Notes:

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

Source: Oregon Employment Department as of January 2012.

**Table 28**  
**CITY OF PORTLAND, OREGON**  
**Average Annual Unemployment**  
**MSA, Oregon, and the United States**  
**(Not Seasonally Adjusted)**

<b>Year</b>	<b>MSA</b>	<b>State of Oregon</b>	<b>USA</b>
2002	7.8%	7.6%	5.8%
2003	8.3	8.1	6.0
2004	7.0	7.3	5.5
2005	5.9	6.2	5.1
2006	5.0	5.3	4.6
2007	4.8	5.2	4.6
2008	6.0	6.5	5.8
2009	10.8	11.1	9.3
2010	10.6	10.8	9.6
2011	9.1	9.5	8.9

Source: Oregon Employment Department as of January 2012.

## EMPLOYMENT BY INDUSTRY

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

**Table 29**  
**CITY OF PORTLAND, OREGON**  
**Portland-Vancouver-Beaverton, Oregon MSA**  
**Non-Farm Wage and Salary Employment <sup>(1)</sup>(000)**

<b>Industry</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Total nonfarm employment	<b>1,034,900</b>	<b>1,034,300</b>	<b>973,800</b>	<b>965,500</b>	<b>975,900</b>
Total private	<b>892,700</b>	<b>887,300</b>	<b>825,700</b>	<b>817,700</b>	<b>830,700</b>
Manufacturing	<b>126,100</b>	<b>123,200</b>	<b>109,100</b>	<b>106,700</b>	<b>108,300</b>
Durable goods	95,700	93,500	81,700	79,300	81,000
Wood product manufacturing	5,600	4,800	3,700	3,500	3,400
Primary metal manufacturing	6,600	7,100	5,800	5,600	5,800
Fabricated metal manufacturing	13,300	13,400	11,100	11,100	11,300
Machinery manufacturing	8,600	8,300	7,000	7,000	7,400
Computer/electronic manufacturing	36,900	35,900	33,900	33,200	34,300
Transportation equipment manufacturing	9,000	8,600	7,000	6,300	6,500
Nondurable goods	30,400	29,600	27,400	27,300	27,400
Food manufacturing	9,100	9,200	9,100	9,300	9,500
Paper manufacturing	4,700	4,500	3,900	3,600	3,300
Non-Manufacturing	<b>766,600</b>	<b>764,200</b>	<b>716,900</b>	<b>711,100</b>	<b>722,600</b>
Construction and mining	66,900	62,400	50,600	45,800	46,000
Trade, transportation, and utilities	205,700	203,900	189,700	186,700	190,600
Wholesale Trade	58,100	57,800	54,400	52,500	53,000
Retail trade	109,800	108,500	101,100	101,100	103,800
Transportation, warehousing, and utilities	37,800	37,600	34,200	33,100	33,900
Information	24,800	24,600	22,900	22,300	22,200
Financial activities	70,400	67,800	63,800	61,800	62,100
Professional and business services	136,400	136,500	124,900	126,600	129,700
Educational and health services	127,800	132,600	135,200	139,000	143,200
Leisure and hospitality	98,000	99,300	94,500	93,900	94,700
Other services	36,600	37,100	35,300	35,000	34,100
Government	<b>142,300</b>	<b>147,000</b>	<b>148,100</b>	<b>147,800</b>	<b>145,200</b>

Notes:

(1) Totals may not sum due to rounding.

Source: State of Oregon, Employment Department as of January 2012.

**Table 30**  
**CITY OF PORTLAND, OREGON**  
**Major Employers in the MSA**

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

Source: Portland Business Journal, May 18, 2012.

## **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.

Portland’s industrial sector is continuing its recovery according to Grubb & Ellis in their publication *Industrial Trends Report – Fourth Quarter 2011, Portland, OR*. Grubb & Ellis report that the overall vacancy rate in the fourth quarter of 2011 was 8.1 percent compared to 8.4 percent in the third quarter of 2011. This vacancy rate was also below the fourth quarter 2010 rate of 8.5 percent. Grubb & Ellis note that the fourth quarter of 2011 ended with almost 900,000 square feet of industrial space absorbed in the quarter and 1.6 million square feet absorbed for the year. A total of 448,000 square feet of new construction was delivered in the quarter. Another 2.9 million square feet of new construction is underway, including a 1.8 million square-foot facility owned by Intel.

### **Office**

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

The office market ended on a positive note in 2011, according to the *Office Trends Report – Fourth Quarter 2011, Portland, OR* prepared by Grubb & Ellis. The fourth quarter vacancy rate for the Portland region was 13.8 percent, down slightly from the third quarter 2011 vacancy rate of 14.1 percent and down from the fourth quarter 2010 vacancy rate of 14.6 percent. The fourth quarter 2011 vacancy rate in the downtown central business district was 9.1 percent, compared to a fourth quarter 2010 rate of 9.4 percent and a third quarter 2011 rate of 9.3 percent. The suburban market was weaker, with a fourth quarter 2011 vacancy rate of 16.6 percent. Grubb & Ellis report total office market net absorption of 157,000 square feet for the fourth quarter. For the year, the CBD saw almost 150,000 of net absorption while the suburbs had over 400,000 square feet of net absorption. Class A office space in the downtown continues to fare better than the rest of the market, with asking rents averaging \$26.19 per square foot compared to \$22.30 per square foot for the Class A space in the Portland region’s suburban market.

### **Housing**

The year-to-date median selling price of a home in the Portland metropolitan area through March 2012 was \$212,000, down 1.4 percent from the March 2011 year-to-date price of \$215,000, according to the Realtors Metropolitan Area Multiple Listing Service (“RMLS”). Through March 2012, homes in the Portland metropolitan area were on the market an average of 135 days during the year. According to RMLS, through March 2012, the Southeast, Northeast, and West Portland regions were the most active residential real estate areas, with 184, 176, and 173 closed sales, respectively. Portland metropolitan area closed sales year-to-date were up 12.2 percent from the same period in 2011.

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



**Table 31**  
**CITY OF PORTLAND, OREGON**  
**Median Home Sale Price**  
**(U.S. and Portland Metropolitan Area)**

<b>Region</b>	<b>1st Quarter 2011</b>	<b>1st Quarter 2012</b>	<b>Percent Change</b>
U.S.	\$158,700	\$158,100	-0.4%
Portland Metro. Area	213,400	208,600	-2.2%

Source: National Association of Realtors and RMLS.

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

**Table 32**  
**CITY OF PORTLAND, OREGON**  
**Median Condo/Coop Sale Price**  
**(U.S. and Portland Metropolitan Area)**

<b>Region</b>	<b>1st Quarter 2011</b>	<b>1st Quarter 2012</b>	<b>Percent Change</b>
U.S.	\$152,100	\$157,200	3.4%
Portland Metro. Area	144,200	135,800	-5.8%

Source: National Association of Realtors and RMLS.

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

**Table 33**  
**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>
2001	1,040	\$159,218,264	102	\$46,446,402
2002	1,088	169,816,560	110	92,457,354
2003	1,093	176,408,264	198	195,489,464
2004	956	162,215,542	161	153,283,224
2005	981	172,372,705	196	247,646,057
2006	1,256	232,917,661	164	241,125,419
2007	1,205	236,732,683	179	346,708,925
2008	648	126,171,068	73	410,957,333
2009	427	86,645,801	15	44,978,728
2010	435	95,809,473	30	86,511,573
2011	451	101,302,272	44	92,746,314

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

## **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; three of these have largely completed their work. Three are mainly 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 is completing its urban renewal work. The Portland Development Commission administers the urban renewal areas. In April 2012, the City Council adopted ordinances to create six small urban renewal areas, which will be located along commercial corridors in certain eastside neighborhoods. These urban renewal areas are being formed to strengthen the economic competitiveness of neighborhood business districts. In May 2012, the City Council also adopted an ordinance approving a new urban renewal area in Portland's west side, which will include property in the vicinity of Portland State University.

## **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 2011, 554 ocean-going vessels made calls at Port facilities. Total maritime tonnage in 2011 increased by 2.0 percent to 13.4 million short tons in 2011 compared to 13.1 million in 2010.

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

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

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

PDX handled approximately 13.7 million passengers in 2011, with more than 400 flights daily. This includes nonstop service on international flights to Amsterdam, Netherlands; Vancouver, British Columbia; Toronto, Ontario; and Tokyo, Japan. In 2011, 205,846 short tons of cargo and 8,118 short tons of mail were handled by PDX. Portland is also served by three publicly operated general aviation airports located in the suburban areas.

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

Transportation is facilitated by a highway system that includes I-5, the primary north-south highway artery of the West Coast, and two by-pass routes, Interstate 205 and Interstate 405, within and around the City. The primary east-west highway system is Interstate 84, which begins at Portland and heads east along the Columbia River to Idaho and beyond. The Portland metropolitan area is also served by U.S. highways 26 and 30, Oregon highways 43, 213, 217, 224, 99E, 99W, the Tualatin Valley Highway, the historic Columbia River Highway, nine bridges across the Willamette River and two bridges across the Columbia River.

The Tri-County Metropolitan Transportation District of Oregon (“TriMet”), the regional public transit agency, provides rail and bus service throughout the Portland metropolitan area. During TriMet’s fiscal year, from July 2010 through June 2011, passengers boarded a TriMet bus or train approximately 100.0 million times.

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

The Portland Streetcar connects the South Waterfront area along the Willamette River with the Pearl District and Northwest Portland. The Portland Streetcar is owned and operated by the City, and has entered into contracts with TriMet for train operators and mechanics. An extension of the streetcar line to Portland’s east side is currently underway. The extension will cross the Willamette River using the Broadway Bridge, travel through the Lloyd District, continue south along Martin Luther King, Jr. Boulevard, and make a loop at either SE Mill or Stephens Street before returning back along Grand Avenue. The project is expected to be completed in September 2012.

The Portland Aerial Tram (“Tram”) opened in January 2007. The Tram, which is owned by the City and operated by Oregon Health and Science University (“OHSU”), links OHSU’s South Waterfront 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 Veterans’ Memorial Coliseum), as do the major-junior Western Hockey League (“WHL”) Portland Winterhawks. JELD-WEN Field (formerly PGE Park) was recently renovated for major league soccer and is the home of the Major League Soccer (“MLS”) Portland Timbers.

## **HIGHER EDUCATION**

Within the Portland metropolitan area are several post-secondary educational systems. Portland State University (“PSU”), the largest university in the Oregon University System, is located on a campus encompassing an area of over 28 blocks adjacent to the downtown business and commercial district of Portland. PSU offers over 220 undergraduate, masters, and doctoral programs. Enrollment for the Fall 2011 term was approximately 29,703 students. PSU is noted for the development of programs specifically designed to meet the needs of the urban center.

Oregon State University and the University of Oregon, also within the Oregon University System, have field offices and extension activities in the Portland metropolitan area.

OHSU's Marquam Hill campus sits on more than 100 acres overlooking downtown Portland. OHSU includes the schools of dentistry, medicine, nursing, and science and engineering. OHSU also includes Doernbecher Children's Hospital and OHSU Hospital, as well as primary care and specialty clinics, research institutes and centers, interdisciplinary centers, and community service programs. Enrollment for 2010-11 was approximately 2,720 medical, dental, nursing, science, and allied health students.

Independent colleges in the Portland metropolitan area include Lewis & Clark College, University of Portland, Reed College, Linfield College-Portland Campus, ITT Technical Institute, and Marylhurst University; and several smaller church-affiliated schools, including Warner Pacific College, Concordia University, George Fox University, and Cascade College. Several community colleges serve the Portland metropolitan area including Portland Community College, Mt. Hood Community College, and Clackamas Community College.

## **UTILITIES**

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

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

### **Communications**

Telephone services are provided by CenturyLink (formerly 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 18.4 percent of the State's Gross Farm and Ranch Sales based on 2011 estimates from the Oregon State University Extension Economic Information Office. The 2011 Gross Farm and Ranch Sales in Clackamas County was \$332,940,000; Washington County was \$284,778,000; Yamhill County was \$259,013,000; Multnomah County was \$55,103,000; and Columbia County was \$26,469,000 as estimated by the Oregon State University Extension Service.

## THE INITIATIVE PROCESS

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

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

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

To place a proposed state-wide initiative on a general election ballot, the proponents must submit to the Secretary of State initiative petitions signed by the number of qualified voters equal to a specified percentage of the total number of votes cast for all candidates for governor at the gubernatorial election at which a governor was elected for a term of four years next preceding the filing of the petition with the Secretary of State. For the 2012 general election, the requirement is eight percent (116,284 signatures) for a constitutional amendment measure and six percent (87,213 signatures) for a statutory initiative. The last day for submitting signed initiative petitions for the 2012 general election is July 6, 2012. Any elector may sign an initiative petition for any measure on which the elector is entitled to vote. State-wide initiatives may only be filed for general elections in even-numbered years. The next general election for which state-wide initiative petitions may be filed will be in November 2012.

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

Once an initiative measure has gathered a sufficient number of signatures and qualified for placement on the ballot, the State is required to prepare a formal estimate of the measure's financial impact. Typically, this estimate is limited to an evaluation of the direct dollar impact.

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

**Table 34**  
**CITY OF PORTLAND, OREGON**  
**Statewide Initiative Petitions that Qualified and Passed**  
**2002-2010**

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

Source: Elections Division, Oregon Secretary of State.

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

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

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

## **LOCAL INITIATIVES**

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

## **TAX MATTERS**

### **2012 SERIES A BONDS – FEDERALLY TAXABLE**

#### **Opinion of Bond Counsel**

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the City ("Bond Counsel"), interest on the 2012 Series A Bonds (i) is included in gross income for Federal income tax purposes pursuant to the Internal Revenue Code of 1986, as amended (the "Code") and (ii) is exempt, under existing statutes, from personal income taxes imposed by the State of Oregon.

The following discussion is a brief summary of the principal United States Federal income tax consequences of the acquisition, ownership and disposition of 2012 Series A Bonds by original purchasers of the 2012 Series A Bonds who are "U.S. Holders", as defined herein. This summary (i) is based on the Code, Treasury Regulations, revenue rulings and court decisions, all as currently in effect and all subject to change at any time, possibly with retroactive effect; (ii) assumes that the 2012 Series A Bonds will be held as "capital assets"; and (iii) does not discuss all of the United States Federal income tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as insurance companies, financial institutions, tax-exempt organizations, dealers in securities or foreign currencies, persons holding the 2012 Series A Bonds as a position in a "hedge" or "straddle", holders whose functional currency (as defined in Section 985 of the Code) is not the United States dollar, holders who acquire 2012 Series A Bonds in the secondary market, or individuals, estates and trusts subject to the tax on unearned income imposed by Section 1411 of the Code.

Holders of 2012 Series A Bonds should consult with their own tax advisors concerning the United States Federal income tax and other consequences with respect to the acquisition, ownership and disposition of the 2012 Series A Bonds as well as any tax consequences that may arise under the laws of any state, local or foreign tax jurisdiction.

#### **Original Issue Discount**

In general, if Original Issue Discount ("OID") is greater than a statutorily defined de minimis amount, a holder of a 2012 Series A Bond having a maturity of more than one year from its date of issue must include in Federal gross income (for each day of the taxable year, or portion of the taxable year, in which such holder holds such 2012 Series A Bond) the daily portion of OID, as it accrues (generally on a constant yield method) and regardless of the holder's method of accounting. "OID" is the excess of (i) the "stated redemption price at maturity" over (ii) the "issue price". For purposes of the foregoing: "issue price" means the first price at which a substantial amount of the 2012 Series A Bond is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers); "stated redemption price at maturity" means the sum of all payments, other than "qualified stated interest", provided by such 2012 Series A Bond; "qualified stated interest" is stated interest that is unconditionally payable in cash or property (other than debt instruments of the City) at

least annually at a single fixed rate; and “de minimis amount” is an amount equal to 0.25 percent of the 2012 Series A Bond’s stated redemption price at maturity multiplied by the number of complete years to its maturity. A holder may irrevocably elect to include in gross income all interest that accrues on a 2012 Series A Bond using the constant-yield method, subject to certain modifications.

### **Acquisition Discount on Short-Term Taxable Bonds**

Each holder of a 2012 Series A Bond with a maturity not longer than one year (a “Short-Term Taxable Bond”) is subject to rules of Sections 1281 through 1283 of the Code, if such holder is an accrual method taxpayer, bank, regulated investment company, common trust fund or among certain types of pass-through entities, or if the Short-Term Taxable Bond is held primarily for sale to customers, is identified under Section 1256(e)(2) of the Code as part of a hedging transaction, or is a stripped bond or coupon held by the person responsible for the underlying stripping transaction. In any such instance, interest on, and “acquisition discount” with respect to, the Short-Term Taxable Bond accrue on a ratable (straight-line) basis, subject to an election to accrue such interest and acquisition discount on a constant interest rate basis using daily compounding. “Acquisition discount” means the excess of the stated redemption price of a Short-Term Taxable Bond at maturity over the holder’s tax basis therefor.

A holder of a Short-Term Taxable Bond not described in the preceding paragraph, including a cash-method taxpayer, must report interest income in accordance with the holder’s regular method of tax accounting, unless such holder irrevocably elects to accrue acquisition discount currently.

### **Bond Premium**

In general, if a 2012 Series A Bond is originally issued for an issue price (excluding accrued interest) that reflects a premium over the sum of all amounts payable on the 2012 Series A Bond other than “qualified stated interest” (a “Taxable Premium Bond”), that Taxable Premium Bond will be subject to Section 171 of the Code, relating to bond premium. In general, if the holder of a Taxable Premium Bond elects to amortize the premium as “amortizable bond premium” over the remaining term of the Taxable Premium Bond, determined based on constant yield principles (in certain cases involving a Taxable Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the highest yield on such bond), the amortizable premium is treated as an offset to interest income; the holder will make a corresponding adjustment to the holder’s basis in the Taxable Premium Bond. Any such election is generally irrevocable and applies to all debt instruments of the holder (other than tax-exempt bonds) held at the beginning of the first taxable year to which the election applies and to all such debt instruments thereafter acquired. Under certain circumstances, the holder of a Taxable Premium Bond may realize a taxable gain upon disposition of the Taxable Premium Bond even though it is sold or redeemed for an amount less than or equal to the holder’s original acquisition cost.

### **Disposition and Defeasance**

Generally, upon the sale, exchange, redemption, or other disposition (which would include a legal defeasance) of a 2012 Series A Bond, a holder generally will recognize taxable gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued interest not previously includable in income) and such holder’s adjusted tax basis in the 2012 Series A Bond.

The City may cause the deposit of moneys or securities in escrow in such amount and manner as to cause the 2012 Series A Bonds to be deemed to be no longer outstanding under the Bond Declaration (a “defeasance”). For Federal income tax purposes, such defeasance could result in a deemed exchange under Section 1001 of the Code and a recognition by such owner of taxable income or loss, without any corresponding receipt of moneys. In addition, the character and timing of receipt of payments on the 2012 Series A Bonds subsequent to any such defeasance could also be affected.

### **Information Reporting and Backup Withholding**

In general, information reporting requirements will apply to non-corporate holders of the 2012 Series A Bonds with respect to payments of principal, payments of interest, and the accrual of OID on a 2012 Series A Bond and the proceeds of the sale of a 2012 Series A Bond before maturity within the United States. Backup withholding may apply to holders of 2012 Series A Bonds under Section 3406 of the Code. Any amounts withheld under the backup withholding rules from a payment to a beneficial owner, and which constitutes over-withholding, would be allowed as a refund or a credit against such beneficial owner’s United States Federal income tax provided the required information is furnished to the Internal Revenue Service.

## **U.S. Holders**

The term “U.S. Holder” means a beneficial owner of a 2012 Series A Bond that is: (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate the income of which is subject to United States Federal income taxation regardless of its source or (iv) a trust whose administration is subject to the primary jurisdiction of a United States court and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust.

## **IRS Circular 230 Disclosure**

The advice under the caption, “TAX MATTERS - 2012 Series A Bonds – Federally Taxable”, concerning certain income tax consequences of the acquisition, ownership and disposition of the 2012 Series A Bonds, was written to support the marketing of the 2012 Series A Bonds. To ensure compliance with requirements imposed by the Internal Revenue Service, each prospective purchaser of the 2012 Series A Bonds is advised that (i) any Federal tax advice contained in this official statement (including any attachments) or in writings furnished by Bond Counsel to the City is not intended to be used, and cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer under the Code, and (ii) the taxpayer should seek advice based on the taxpayer’s particular circumstances from an independent tax advisor.

## **Miscellaneous**

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest of the 2012 Series A Bonds under state law or otherwise prevent beneficial owners of the 2012 Series A Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the 2012 Series A Bonds.

Prospective purchasers of the 2012 Series A Bonds should consult their own tax advisors regarding the foregoing matters.

## **2012 SERIES B BONDS AND 2012 SERIES C BONDS – FEDERALLY TAX-EXEMPT**

### **Opinion of Bond Counsel**

In the opinion of Bond Counsel, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2012 Series B Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code, and (ii) interest on the 2012 Series B Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code. Bond Counsel expresses no opinion on the extent to which interest on the 2012 Series B Bonds is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations.

In the opinion of Bond Counsel, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2012 Series C Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code, except that no opinion is expressed as to such exclusion of interest on any 2012 Series C Bond for any period during which the 2012 Series C Bond is held by a person who, within the meaning of Section 147(a) of the Code, is a “substantial user” of the facilities financed with the proceeds of the 2012 Series C Bonds or a “related person,” and (ii) interest on the 2012 Series C Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax.

In rendering its opinions, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the City, Home Forward, and RAC Housing Limited Partnership in connection with the 2012 Series C Bonds and 2012 Series B Bonds (collectively, the “Tax-Exempt Bonds”), and Bond Counsel has assumed compliance by the City, Home Forward, and RAC Housing Limited Partnership with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Tax-Exempt Bonds from gross income under Section 103 of the Code.

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



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

### **Summary of Certain Federal Tax Requirements**

Under the Code, the residential rental development being refinanced by the 2012 Series C Bonds must meet a requirement that either (i) at least 20% of the units in such development be occupied during the Qualified Project Period (as defined in this subsection below) by individuals whose incomes are 50% or less of area median gross income, as adjusted for family size, or (ii) at least 40% of the units in such development be occupied during the Qualified Project Period by individuals whose incomes are 60% or less of area median gross income, as adjusted for family size. The forgoing requirement is hereinafter referred to as the “20/50 or 40/60 Requirement,” as applicable.

The term “Qualified Project Period” is defined in the Code such that its ending date is the latest of (i) the date which is at least 15 years after the date on which 50% of the units in such development are first occupied, (ii) the first day on which no tax-exempt bond issued with respect to such development is outstanding, or (iii) the date on which any assistance provided with respect to such development under Section 8 terminates.

In addition to the 20/50 or 40/60 Requirement, all of each such development’s units must remain rental property throughout the applicable Qualified Project Period. RAC Housing Limited Partnership has covenanted to comply with the 20/50 or 40/60 Requirement with respect to the development refinanced by the 2012 Series C Bonds throughout the term of the Qualified Project Period.

### **Certain Ongoing Federal Tax Requirements and Covenants**

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Tax-Exempt Bonds in order that interest on the Tax-Exempt Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, occupancy and use limitations by RAC Housing Limited Partnership of the residential rental development financed refinanced by the 2012 Series C Bonds, requirements relating to use and expenditure of gross proceeds of the Tax-Exempt Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Tax-Exempt Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The City, Home Forward, and RAC Housing Limited Partnership have covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Tax-Exempt Bonds from gross income under Section 103 of the Code.

### **Certain Collateral Federal Tax Consequences**

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

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

## **Original Issue Discount**

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

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

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

## **Bond Premium**

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

## **Information Reporting and Backup Withholding**

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

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

## Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Tax-Exempt Bonds under Federal or state law or otherwise prevent beneficial owners of the Tax-Exempt Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Tax-Exempt Bonds.

Prospective purchasers of the Tax-Exempt Bonds should consult their own tax advisors regarding the foregoing matters.

## ERISA CONSIDERATIONS

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

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

The fiduciary of a Plan that proposes to purchase and hold any 2012 Series A Bonds should consider, among other things, whether such purchase and holding may involve (i) the direct or indirect extension of credit to a Party in Interest, (ii) the sale or exchange of any property between a Plan and a Party in Interest and (iii) the transfer to, or use by or for the benefit of, a Party in Interest, of any Plan assets. Depending on the identity of the Plan fiduciary making the decision to acquire or hold 2012 Series A Bonds on behalf of a Plan and other factors, U.S. Department of Labor Prohibited Transaction Class Exemption (“PTCE”) 75-1 (relating to certain broker-dealer transactions), PTCE 84-14 (relating to transactions effected by “qualified professional asset managers”), PTCE 90-1 (relating to investments by insurance company pooled separate accounts), PTCE 91-38 (relating to investments by bank collective investment funds), PTCE 95-60 (relating to investments by an insurance company general account), or PTCE 96-23 (relating to transactions directed by certain “in-house asset managers”) could provide an exemption from the prohibited transaction provisions of ERISA and Section 4975 of the Code. In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code generally provide for a statutory exemption from the prohibitions of Section 406(a) of ERISA and Section 4975 of the Code for certain transactions between Plans and persons who are Parties in Interest solely by reason of providing services to such Plans or that are affiliated with such service providers, provided generally that such persons are not fiduciaries (or affiliates of such fiduciaries) with respect to the “plan assets” of any Plan involved in the transaction and that certain other conditions are satisfied.

By its acceptance of a 2012 Series A Bond, each Purchaser will be deemed to have represented and warranted that either (i) no “plan assets” of any Plan have been used to purchase such 2012 Series A Bond, or (ii) the Underwriter is not a Party in Interest with respect to the “plan assets” of any Plan used to purchase such 2012 Series A Bond, or (iii) the purchase and holding of such 2012 Series A Bonds is exempt from the prohibited transaction restrictions of ERISA and Section 4975 of the Code pursuant to a statutory exemption or an administrative class exemption.

Each Plan fiduciary (and each fiduciary for a governmental or church plan subject to the rules similar to those imposed on Plans under Section 406 of ERISA or Section 4975 of the Code) should consult with its legal advisor concerning an investment in any of the 2012 Series A Bonds.

## RATING

The 2012 Bonds have been rated “A1” by Moody’s Investors Service. Such rating reflects only the views of such organization and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody’s Investors Service, Inc., 250 Greenwich Street, New York, New York, 10007. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any such rating will continue for any given period of time or that such rating will not be

revised downward or withdrawn entirely by the rating agency concerned, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of any such ratings may have an adverse effect on the market price of the 2012 Bonds.

## UNDERWRITING

On behalf of the Underwriters listed on the cover of this Official Statement, Merrill Lynch, Pierce, Fenner & Smith Incorporated has agreed, subject to certain conditions, to purchase all of the 2012 Series A Bonds, if any are to be purchased, at a price of \$\_\_\_\_\_ (which is equal to the aggregate principal amount of the 2012 Series A Bonds of \$\_\_\_\_\_, less an Underwriter's Discount of \$\_\_\_\_\_).

On behalf of the Underwriters listed on the cover of this Official Statement, Merrill Lynch, Pierce, Fenner & Smith Incorporated has agreed, subject to certain conditions, to purchase all of the 2012 Series B Bonds, if any are to be purchased, at a price of \$\_\_\_\_\_ (which is equal to the aggregate principal amount of the 2012 Series B Bonds of \$\_\_\_\_\_, less an Underwriter's Discount of \$\_\_\_\_\_, plus an original issue premium of \$\_\_\_\_\_ and less an original issue discount of \$\_\_\_\_\_).

On behalf of the Underwriters listed on the cover of this Official Statement, Merrill Lynch, Pierce, Fenner & Smith Incorporated has agreed, subject to certain conditions, to purchase all of the 2012 Series C Bonds, if any are to be purchased, at a price of \$\_\_\_\_\_ (which is equal to the aggregate principal amount of the 2012 Series C Bonds of \$\_\_\_\_\_, less an Underwriter's Discount of \$\_\_\_\_\_, plus an original issue premium of \$\_\_\_\_\_ and less an original issue discount of \$\_\_\_\_\_).

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

Citigroup Inc., parent company of Citigroup Global Markets Inc., has entered into a retail brokerage joint venture with Morgan Stanley & Co. LLC. As part of the joint venture, Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, the Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2012 Bonds.

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association ("WFBNA"). WFBNA has entered into an agreement (the "Distribution Agreement") with Wells Fargo Advisors, LLC ("WFA") for the retail distribution of certain municipal securities offerings, including the 2012 Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting with respect to the 2012 Bonds with WFA. WFBNA and WFA are both subsidiaries of Wells Fargo & Company. In addition, Wells Fargo Community Investment Holdings, LLC ("WFCIH"), a subsidiary of WFBNA has an interest in certain projects being financed or refinanced with proceeds of the 2012 Bonds. WFCIH is the Limited Partner in the RAC Housing Limited Partnership. See "TAX MATTERS—2012 SERIES B BONDS AND 2012 SERIES C BONDS – FEDERALLY TAX-EXEMPT." WFBNA has provided the lines of credit that are being repaid with a portion of the 2012 Bond proceeds, and has also provided the City with a line of credit that expires on December 31, 2013, that may be drawn upon in the future. See "THE 2012 BONDS—AUTHORIZATION AND PURPOSE," "ESTIMATED SOURCES AND USES OF BOND PROCEEDS" AND "AREA PROPERTY VALUES, TAX INCREMENT REVENUES, AND INDEBTEDNESS—OUTSTANDING INDEBTEDNESS."

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

## **FORWARD LOOKING STATEMENTS**

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

## **LEGAL MATTERS**

Legal matters incident to the authorization, issuance and sale of the 2012 Bonds by the City are subject to the approving opinion of Hawkins Delafield & Wood LLP, Portland, Oregon, Bond Counsel. Bond Counsel has reviewed this Official Statement only to confirm that the portions of it describing the 2012 Bonds, the Ordinance, the Bond Declaration, and the authority to issue the 2012 Bonds conform to the 2012 Bonds and the applicable laws under which they are issued. The statements made in this Official Statement under the captions “THE 2012 BONDS” and “TAX MATTERS” have been reviewed and approved by Bond Counsel. All other representations of law and factual statements contained in this Official Statement, including but not limited to all financial and statistical information and representations contained herein, have not been reviewed or approved by Bond Counsel. Certain other legal matters have been passed upon for the Underwriters by Orrick, Herrington & Sutcliffe LLP, Portland, Oregon, Underwriter’s Counsel.

## **LITIGATION**

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

The City discloses only pending or threatened litigation that the City has determined may have a materially adverse impact on the City’s or Commission’s financial position in relation to the bonds offered for sale; for the 2012 Bonds, the current level of materiality involves litigation where the damages or performance sought has a reasonable probability of imposing liability of \$5 million or more against the Area’s Tax Increment Revenues. Except as noted in the following paragraph, there is no litigation pending or threatened against the City or the Commission which would materially and adversely affect the financial condition of the Tax Increment Fund of the Area.

In December 2000, Portland Harbor was listed as a federal Superfund site, and a number of properties in the site are within the boundaries of the Area. Total costs of cleaning up the site and restoration of natural resources will be estimated at the completion of a Remedial Investigation and Feasibility Study (“RI/FS”) under the federal Comprehensive Environmental Response, Compensation, and Liability Act (“CERCLA”). The City can not predict when the RI/FS will be complete. It is anticipated that allocation of liability for cleanup to various parties will be determined after a remedial action is selected. The City and/or the Commission may also have liabilities to Natural Resource Trustees of the Willamette River (including federal, state and tribal resource agencies) for damages to natural resources in Portland Harbor. Potential resource damages have not been quantified by the trustees and cannot be estimated until the conclusion of trustee activities. The City can not predict when such trustee activities will be complete. Because properties within the Portland Harbor fall within the Area, the Commission may be liable for a portion of the cleanup and restoration activities, as well as costs for restoration of natural resources. As described above, the total costs of cleanup and restoration, as well as allocation among parties, is undeterminable at this time, but the charge against the Tax Increment Revenues may be a material amount.

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

At the time of the original delivery of the 2012 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 2012 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 2012 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 2012 Bonds. Any statements made in this Official Statement involving matters of opinion are intended merely as opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or its agencies, since the date hereof.

## **CONTINUING DISCLOSURE**

Pursuant to SEC Rule 15c2-12, as amended (17 CFR Part 240, § 240.15c2-12) (the “Rule”), the City, as the “obligated person” within the meaning of the Rule, will execute and deliver a Continuing Disclosure Certificate substantially in the form attached hereto as Appendix G for the benefit of the 2012 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 2012 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 2012 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**  
**BOND DECLARATION**

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# **BOND DECLARATION**

**City of Portland, Oregon**

**River District Urban Renewal and Redevelopment Bonds**

**2003 Series A (Tax Exempt)**

**and**

**2003 Series B (Federally Taxable)**

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

**As of this 26<sup>th</sup> day of June, 2003**

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Appendix A    Bond Form - Book-Entry-Only

## **BOND DECLARATION**

THIS BOND DECLARATION is executed as of June 26, 2003, by the Debt Manager of the City of Portland, Oregon pursuant to the authority granted to the Debt Manager by City Ordinance No. 177504 to establish the terms under which the City's River District Urban Renewal and Redevelopment Bonds 2003 Series A (Tax Exempt) and 2003 Series B (Federally Taxable) and future parity obligations may be issued.

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

The Council finds:

1.1. The City and the Portland Development Commission have formed the River District Urban Renewal Area in compliance with the requirements of Oregon law. The ordinance approving the urban renewal plan was enacted on October 21, 1998, and no petitions were filed with the City or the Portland Development Commission seeking to refer the ordinance creating the plan and River District Urban Renewal Area to City voters.

1.2. The urban renewal plan for the River District Urban Renewal Area establishes a maximum indebtedness for the District of \$224,780,350. As of the date of this Declaration the City has issued \$74,640,000 of indebtedness for the District.

1.3. The City is authorized to issue bonds which are payable from the Divide the Taxes Revenues of the River District Urban Renewal Area.

1.4. This Declaration provides the terms under which the City's River District Urban Renewal and Redevelopment Bonds 2003 Series A (Tax Exempt) and River District Urban Renewal and Redevelopment Bonds 2003 Series B (Federally Taxable) are issued. This declaration also states the terms under which future obligations may be issued on a parity with these Bonds.

1.5. In its Resolution No. 5959, adopted on December 11, 2002, the Portland Development Commission has requested the City to issue the 2003 Bonds pursuant to Section 15-106 of the Charter of the City of Portland.

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

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

"2003 Bonds" means the 2003 Series A Bonds and the 2003 Series B Bonds.

"2003 Series A Bonds" means the City's River District Urban Renewal and Redevelopment Bonds 2003 Series A (Tax Exempt) which are described in Section 13 of this Declaration.

"2003 Series B Bonds" means the City's River District Urban Renewal and Redevelopment Bonds 2003 Series B (Federally Taxable) which are described in Section 13 of this Declaration.

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

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

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

“Area” means the River District Urban Renewal Area which is described in the Plan, and all additions thereto.

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

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

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

“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.

“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.

"Bonds" means the 2003 Bonds and any Parity Indebtedness.

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

"City" means the City of Portland, Oregon.

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

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

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

"Commission" means the Portland Development Commission of the City of Portland.

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

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

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

"Debt Service" means Bond principal, interest and any premium.

"Declaration" means this Declaration authorizing the 2003 Bonds, as it may be amended from time to time pursuant to Section 8.

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

(a) the Reciprocal Payments are to be deposited directly into the Parity Indebtedness Account; and,

(b) the City is not required to fulfill its obligations under the contract if: (i) the Reciprocal Payor fails to make any Reciprocal Payment; or (ii) the Reciprocal Payor fails to comply with its financial status covenants.

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

"DTC" means the Depository Trust Company of New York, the initial securities depository for the Bonds.

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

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

"Event of Default" refers to an Event of Default listed in Section 9.1 of this Declaration.

"Fiscal Year" means the period beginning on July 1 of each year and ending on the next succeeding June 30, or as otherwise defined by Oregon law.

"Government Obligations" means direct noncallable obligations of the United States, or obligations the principal of and interest on which are fully and unconditionally guaranteed by the United States.

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

"Maximum Annual Debt Service" means the greatest Annual Debt Service, calculated on all Bonds which are Outstanding on the date of calculation.

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

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

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

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

"Parity Indebtedness" means obligations issued in compliance with Section 5 of this Declaration which are secured by a lien on, and pledge of, the Security which is on a parity with the lien on, and pledge of, the Security which secures the 2003 Bonds.

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

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

"Permitted Investments" means any investments in which the City is authorized to invest surplus funds under the laws of the State of Oregon.

"Plan" means the Commission's River District Urban Renewal Plan, which was first adopted on October 21, 1998, as that plan may be amended in the future.

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

"Rating Agency" means Fitch, Moody's, S&P, or any other nationally recognized financial rating agency which has rated Outstanding Bonds at the request of the City.

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

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

"Record Date" means the date used to determine ownership of Bonds for purposes of mailing Bond payments.

"Reserve Account" means the account of that name in the Parity Indebtedness Fund described in Section 4.3.

"Reserve Equivalent" means an insurance policy, surety bond or guarantee or letter of credit issued by a municipal bond insurance company, a domestic corporation or a commercial bank having a credit rating (when the policy, bond, or letter of credit is issued) of at least A by Moody's Investors Service, Standard & Poor's Corporation, or Fitch Investors Service, or their successors, in which the insurance company, corporation or commercial bank agrees unconditionally to provide the City with funds for the payment of debt service on Bonds.

“Reserve Requirement” means an amount equal to the lesser of the Maximum Annual Debt Service on all Outstanding Bonds or the amount described in the next sentence. If at the time of issuance of a Series of Bonds, the amounts required to be added to the Reserve Account to make the balance in the Reserve Account equal to Maximum Annual Debt Service on all Outstanding Bonds exceeds the Tax Maximum calculated with respect to such Series of Bonds, then the Reserve Requirement shall mean the Reserve Requirement in effect immediately prior to the issuance of that Series of Bonds, plus the Tax Maximum calculated with respect to that Series of Bonds.

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

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

“Security” means the Divide the Taxes Revenues, all amounts in the Tax Increment Fund and all amounts available under any Reserve Equivalent.

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

“Subordinate Indebtedness Fund” means the account of that name in the Tax Increment Fund established in Section 4.4.

“Subordinate Indebtedness” means obligations issued in compliance with Section 6 of this Declaration which are secured by a lien on, and pledge of, the Divide the Taxes Revenues which is on subordinate to the lien on, and pledge of, the Divide the Taxes Revenues which secures the Bonds.

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



“Tax Increment Fund” means the fund established under ORS 457.440(6)(b) to hold the Divide the Taxes Revenues, which is currently called the River District Urban Renewal Area Debt Redemption Fund.

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

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

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

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

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

### **Section 3. Security for Bonds.**

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

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

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

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

The City has previously established the Tax Increment Fund. The Tax Increment Fund shall contain the Parity Indebtedness Fund and the Subordinate Indebtedness Fund. The Parity Indebtedness Fund shall contain the Debt Service Account and the Reserve Account.

4.1. Beginning with Levy Year 2003-2004 and continuing until all Bonds are paid or defeased, the City shall deposit all Divide the Taxes Revenues in the Tax Increment Fund, and shall credit each deposit to the following accounts within the Tax Increment Fund in the following order of priority:

- (A) To the Debt Service Account, until the Debt Service Account contains an amount sufficient to pay the Scheduled Debt Service for that Levy Year;
- (B) To the Reserve Account, if the balance in the Reserve Account is then less than the Reserve Requirement, until the balance in the Reserve Account is equal to the Reserve Requirement; and,
- (C) To the Subordinate Indebtedness Fund, any amounts which remain after the foregoing deposits have been made.

4.2. Debt Service Account.

- (A) Money in the Debt Service Account shall be used only to pay Bond principal, interest and premium.
- (B) Amounts credited to the Debt Service Account may be invested in Permitted Investments which mature within one year or in the City's investment pool. Earnings shall be credited as provided in Section 4.5.
- (C) Five (5) days before any payment of principal, premium or interest on the Bonds is due, if the balance in the Debt Service Account is less than the amount due, the City shall credit an amount equal to the deficiency from Divide the Taxes Revenues in the following accounts in the following order of priority:

- (1) the Subordinate Indebtedness Fund; and,
- (2) the Reserve Account.

4.3. Reserve Account.

- (A) Except as specifically provided in this Section 4.3. amounts credited to the Reserve Account shall be used only to pay Bond principal, interest and premium, but only if amounts in the Debt Service Account are not sufficient.
- (B) At Closing of the 2003 Bonds the City shall deposit into the Reserve Account an amount equal to the Reserve Requirement for the 2003 Bonds. The deposit may be made from amounts available in the Tax Increment Fund, from 2003 Bond proceeds, or other amounts available to the City, or may be in the form of a Reserve Equivalent.
- (C) At Closing of each Series of Parity Indebtedness the City shall deposit into the Reserve Account an amount sufficient to make the balance in the Reserve Account equal to the Reserve Requirement for all then Outstanding Bonds, with the Parity Indebtedness treated

as Outstanding. The deposit may be made from amounts in the Subordinate Indebtedness Fund, from Bond proceeds, or other amounts available to the City, or may be in the form of a Reserve Equivalent.

- (D) The City covenants to maintain a balance in the Reserve Account which is equal to the Reserve Requirement, but solely from deposits of Divide the Taxes Revenues pursuant to Section 4.1(B) and Closing deposits pursuant to Section 4.3(B) and Section 4.3(C). The balance in the Reserve Account shall be equal to the sum of the following amounts, calculated as of the most recent Valuation Date: the cash credited to the Reserve Account; plus the value of Permitted Investments in the Reserve Account; plus the amount available to be drawn under all Reserve Equivalents.
- (E) If the value of the investments in the Reserve Account on a Valuation Date is less than the Reserve Requirement, the City shall begin making transfers of Divide the Taxes Revenues to the Reserve Account in accordance with Section 4.1(B).
  - (1) Transfers to the Reserve Account shall be applied first, to reimburse the Providers of any Reserve Credit Facilities *pro rata* for amounts advanced under the Reserve Credit Facility; second, to replenish the balance in the Reserve Account with cash or Permitted Investments; and third to pay any other amounts owed under a Reserve Credit Facility (including any interest, fees and penalties associated with any draw under a Reserve Credit Facility).
  - (2) Transfers under Section 4.1(B) shall commence immediately following each Valuation Date on which the balance in the Reserve Account is less than the Reserve Requirement, and shall continue until the balance in the Reserve Account is equal to the Reserve Requirement.
- (F) Moneys in the Reserve Account may be invested only in Permitted Investments that mature no later than the final maturity date of the Bonds, or in the City's investment pool. Earnings shall be credited as provided in Section 4.5.
- (G) Permitted Investments in the Reserve Account shall be valued on each Valuation Date in the following manner:
  - (1) Demand deposits, deposits in the City's investment pool and the Oregon Short Term Fund and other investments which mature in two years or less after the Valuation Date shall be valued at their face amount, plus accrued interest;
  - (2) 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;
  - (3) 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;

- (4) 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
  - (5) 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.
- (H) Withdrawals from the Reserve Account shall be made in the following order of priority:
- (1) **First**, from any cash on deposit in the Reserve Account;
  - (2) **Second**, from the liquidation proceeds of any Permitted Investments on deposit in such Reserve Account; and
  - (3) **Third**, from moneys drawn or paid pro-rata under any Reserve Equivalents.
- (I) All amounts on deposit in the Reserve Account may be applied to the final payment (whether at maturity or by prior Redemption) of Outstanding Bonds. Amounts so applied shall be credited against the amounts the City is required to transfer into the Debt Service Account under Section 4.1(A).
- (J) Amounts in the Reserve Account may be transferred into escrow to defease Bonds, but only if the balance remaining in the Reserve Account after the transfer is at least equal to the Reserve Requirement for the Bonds which remain Outstanding after the defeasance.

4.4. Subordinate Indebtedness Fund. Divide the Taxes Revenues in the Subordinate Indebtedness Fund may be used at any time for any legal purpose permitted under Chapter 457 of the Oregon Revised Statutes. However, if the balance in the Reserve Account is less than the Reserve Requirement, Divide the Taxes Revenues credited to the Subordinate Indebtedness Fund shall be used to eliminate that deficiency before money in the Subordinate Indebtedness Fund is used for any other purpose.

4.5. Earnings. Except as provided below in this Section 4.5, earnings on all funds and accounts in the Tax Increment Fund shall be credited to the Subordinate Indebtedness Fund. While the balance in the Reserve Account is less than the Reserve Requirement, earnings on all accounts in the Tax Increment Fund shall be credited to the Reserve Account.

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

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

- (A) As of the date of Closing of the Parity Indebtedness, no Event of Default under this Declaration has occurred and is continuing.
- (B) On or before the date of Closing of the Parity Indebtedness the City provides either:
  - (1) a certificate of the Debt Manager stating that the Divide the Taxes Revenues for the Base Period at least equaled one hundred twenty-five percent (125.00%) of the Maximum Annual Debt Service on all then Outstanding Bonds, with the proposed Parity Indebtedness treated as Outstanding and all Outstanding Bonds treated as if they were part of a single Series; or,
  - (2) (I) a certificate or opinion of a Qualified Consultant:
    - (i) stating the projected amount of the Divide the Taxes Revenues for the Fiscal Year in which the proposed Parity Indebtedness is issued and the projected amount of the Divide the Taxes Revenues for each of the four Fiscal Years after the Fiscal Year in which the proposed Parity Indebtedness are issued;
    - (ii) concluding that the respective amounts of projected Divide the Taxes Revenues in each of the Fiscal Years described in Section 0 are at least equal to one hundred thirty percent (130.00%) of the Scheduled Debt Service for each of those respective Fiscal Years on all Outstanding Bonds, with the proposed Parity Indebtedness treated as Outstanding and all Outstanding Bonds treated as if they were part of a single Series;
    - (iii) stating the projected amount of the Divide the Taxes Revenues for the fifth Fiscal Year after the Fiscal Year in which the Parity Indebtedness are issued; and,
    - (iv) concluding that this amount described in Section 0 is at least equal to one hundred thirty percent (130.00%) of the Maximum Annual Debt Service on all Outstanding Bonds, with the proposed Parity Indebtedness treated as Outstanding and all Outstanding Bonds treated as if they were part of a single Series; and,
  - (II) a certificate of the Debt Manager stating that the Divide the Taxes Revenues for the Base Period at least equaled one hundred percent (100.00%) of the Maximum Annual Debt Service on all then Outstanding Bonds, with the proposed Parity Indebtedness treated as Outstanding and all Outstanding Bonds treated as if they were part of a single Series.

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

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

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

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

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

- (A) For purposes of calculating Annual Debt Service for determining compliance with Section 7.7, the Estimated Average Interest Rate means the average BMA Index for the 52 week period that ends on or immediately before the end of the month preceding the month in which the calculation is made, expressed as an annualized interest rate, plus fifty basis points (0.50%).
  - (i) Unless Section 5.5(A)(ii) applies, for purposes of calculating Annual Debt Service for the tests for issuing Parity Indebtedness under Section 5, the Estimated Average Interest Rate for any Series of Variable Rate Obligations means the average of the weekly Bond Buyer 20 Bond Index for the 52 week period that ends on or immediately before the last day of the month that precedes the month in which the Parity Indebtedness is sold, expressed as an annualized interest rate; or,
  - (ii) For any Series of Variable Rate Obligations that have been outstanding for at least 52 weeks at the end of the period described in Section 5.5(A)(i), if the actual, annualized rate on that Series during that 52 week period is greater than the average, annualized rate described in Section 5.5(A)(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.

- (B) For purposes of determining the Parity Indebtedness Reserve Requirement, the Estimated Average Interest Rate for a Series of Parity Indebtedness shall be the average of the weekly Bond Buyer 20 Bond Index for the 52 week period that ends on or immediately before the last day of the month that precedes the month in which the Parity Indebtedness is sold, expressed as an annualized interest rate. This calculation of Estimated Average Interest Rate shall be used for that Series of Parity Indebtedness Obligations as long as that Series of Parity Indebtedness Obligations is Outstanding.

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

- (A) Whenever a Balloon Payment will be Outstanding on the date a Series of Parity Indebtedness is issued, the Debt Manager shall prepare a schedule of principal and interest payments for a hypothetical Series of Parity Indebtedness that refunds each Outstanding Balloon Payment in accordance with this Section 5.6. The Debt Manager shall prepare that schedule as of the date the Parity Indebtedness is sold, and that schedule shall be used to determine compliance with the tests for Parity Indebtedness in Section 5.
- (B) Each hypothetical Series of refunding Parity Indebtedness shall be assumed to be paid in equal annual installments of principal and interest sufficient to amortize the principal amount of the Balloon Payment over the term selected by the Debt Manager; however, the Debt Manager shall not select a term that exceeds the lesser of 20 years from the date on which the Series of Parity Indebtedness containing the Balloon Payment is issued or the City's estimate of the remaining weighted average useful life (expressed in years and rounded to the next highest integer) of the assets which are financed with the Balloon Payment. The annual installments shall be assumed to be due on the first day of each Fiscal Year, with the first installment due at least six months after the date on which the estimated debt service requirement is calculated.

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

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

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

6.1. It is secured by a lien on or pledge of the Divide the Taxes Revenues which is subordinate to the lien on, and pledge of, the Divide the Taxes Revenues for the Bonds; and,

6.2. It is not payable from any account of the Tax Increment Fund except the Subordinate Indebtedness Fund or a subaccount of the Subordinate Indebtedness Fund.

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

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

7.1. The City shall promptly cause the principal, premium, if any, and interest on the Bonds to be paid as they become due in accordance with the provisions of this Declaration and any Supplemental Declaration, but solely from the Divide the Taxes Revenues, amounts deposited in the Tax Increment Fund, and amounts available under any Reserve Equivalents.

7.2. The City shall maintain complete books and records relating to the Tax Increment Fund, the Divide the Taxes Revenues and the Bonds in accordance with generally accepted accounting principles, and will cause such books and records to be audited annually at the end of each Fiscal Year, and an audit report prepared by the Auditor and made available for the inspection of Owners.

7.3. The City shall issue obligations which have a lien or claim on the Security which is on a parity with the lien and claim of the Owners only as provided in Section 5.

7.4. The City shall refinance or otherwise provide for the payment of any Balloon Payments not later than the date on which the Balloon Payments are actually due.

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

7.6. Before the City or the Commission grants or approves any property tax exemption for property within the Area the Debt Manager shall project the Divide the Taxes Revenues which will be available from the Area after the exemption is granted. Neither the City nor the Commission shall grant or approve any property tax exemption for property inside the Area unless the Debt Manager reasonably projects that the Area, after the exemption is in effect, will have Divide the Taxes Revenues which are at least equal to one hundred ten percent (110.00%) of the Maximum Annual Debt Service on all then Outstanding Bonds (calculated as if all Outstanding Bonds were part of a single Series).

7.7. Laws in effect on the date of this Declaration do not permit the City or the Commission to refuse or limit collection of the Divide the Taxes Revenues. If those laws change and the City or the Commission are permitted to refuse or limit collection of the Divide the Taxes Revenues, the City and the Commission covenant that they shall, to the extent permitted by law, each Fiscal



Year, notify the assessors to collect an amount of Divide the Taxes Revenues which is at least equal to one hundred ten percent (110.00%) of the Bond principal, interest and premium that is scheduled to be paid in that Fiscal Year.

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

8.1. The City may enact a Supplemental Declaration to amend this Declaration without the consent of any Owner for any one or more of the following purposes:

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

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

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

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

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

- (A) Failure by the City to pay Bond principal, interest or premium when due (whether at maturity, or upon redemption after a Bond has been properly called for redemption) as required by this Declaration;

- (B) Failure by the City to observe and perform any covenant, condition or agreement which this Declaration requires the City to observe or perform for the benefit of Owners of Bonds, which failure continues for a period of 60 days after written notice to the City by the Owners of ten percent or more of the principal amount of Bonds then Outstanding specifying such failure and requesting that it be remedied; provided however, that if the failure stated in the notice cannot be corrected within such 60 day period, it shall not constitute an Event of Default so long as corrective action is instituted by the City within the 60 day period and diligently pursued, and the default is corrected as promptly as practicable after the written notice referred to in this paragraph (B); or,
- (C) The City is adjudged insolvent by a court of competent jurisdiction, admits in writing its inability to pay its debts generally as they become due, files a petition in bankruptcy, or consents to the appointment of a receiver for Divide the Taxes Revenues.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

12.2. References to one gender shall include all genders.

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

#### **Section 13. The 2003 Bonds.**

13.1. 2003 Series A Bonds. The 2003 Series A Bonds shall be dated June 26, 2003, shall bear interest which is payable on December 15 and June 15 of each year, commencing December 15, 2003, and shall mature on the following dates in the following principal amounts:

Date	Principal Amount	Interest Rate	Date	Principal Amount	Interest Rate
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	Amount			Amount	
2015	\$745,000	3.25%	2019	\$3,725,000	5.00%
2015	1,690,000	5.00	2020	3,915,000	5.00
2016	155,000	3.45	2021	4,110,000	5.00
2016	3,070,000	5.00	2022	915,000	4.00
2017	3,385,000	5.00	2022	3,400,000	5.00
2018	230,000	3.65	2023	1,390,000	4.00
2018	3,320,000	5.00	2023	3,130,000	5.00

The 2003 Series A Bonds are subject to redemption at the option of the City on June 15, 2013, 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.

- (A) The 2003 Series A Bonds shall be Tax-Exempt Bonds, and the City covenants not to take any action, or omit to take any action, if the taking or omitting would cause interest on the 2003 Series A Bonds to become includable in gross income under the Code.

13.2. 2003 Series B Bonds. The 2003 Series B Bonds shall be dated June 26, 2003, shall bear interest which is payable on December 15 and June 15 of each year, commencing December 15, 2003, and shall mature on the following dates in the following principal amounts:

Date	Principal Amount	Interest Rate	Date	Principal Amount	Interest Rate
2004	\$2,350,000	1.14%	2011	\$2,655,000	3.60%
2005	2,305,000	1.48	2012	2,750,000	3.80
2006	2,340,000	1.80	2013	2,855,000	3.92
2007	2,380,000	2.23	2014	2,970,000	4.02
2008	2,435,000	2.63	2015	655,000	4.10
2009	2,495,000	2.94			
2010	2,570,000	3.35			

(A) The 2003 Series B Bonds are not subject to redemption at the option of the City prior to maturity.

(B) The 2003 Series B Bonds shall be Taxable Bonds.

13.3. For purposes of calculating the Reserve Requirement, the 2003 Bonds shall be treated as a single Series.

13.4. Form. The 2003 Bonds shall be in substantially the form attached hereto as Appendix A, with such changes as may be approved by the Debt Manager. The 2003 Bonds shall be executed on behalf of the City with the facsimile signatures of the Mayor and City Auditor.

13.5. Book Entry System for 2003 Bonds. The 2003 Bonds shall be initially issued in BEO form and shall be governed by this Section 13.5. While 2003 Bonds are in BEO form no physical 2003 Bonds shall be provided to Owners of 2003 Bonds. The Debt Manager has executed and delivered a blanket Letter of Representations to DTC. While the 2003 Bonds are in BEO form, registration and transfer of beneficial interests in the 2003 Bonds shall be governed by that letter and the Operational Arrangements of DTC, as they may be amended from time to time, as provided in the blanket issuer letter of representations. So long as 2003 Bonds are in BEO form:

(A) DTC shall be treated as the Owner for all purposes, including payment and the giving of notices to Owners of 2003 Bonds. 2003 Bond payments shall be made, and notices shall be given, to DTC in accordance with the Letter of Representations. Any failure of DTC to advise any of its participants, or of any participant to notify the beneficial owner, of any

such notice and its content or effect will not affect the validity of the redemption of 2003 Bonds called for redemption or of any other action premised on such notice.

- (B) The City may discontinue maintaining the 2003 Bonds in the BEO form at any time. The City shall discontinue maintaining the 2003 Bonds in BEO form if DTC determines not to continue to act as securities depository for the 2003 Bonds, or fails to perform satisfactorily as depository, and a satisfactory substitute depository cannot reasonably be found.
- (C) If the City discontinues maintaining the 2003 Bonds in BEO form, the City shall cause the Paying Agent to authenticate and deliver replacement 2003 Bonds in fully registered form in authorized denominations in the names of the beneficial owners or their nominees; thereafter the provisions set forth in Section 13.7. below, regarding registration, transfer and exchange of 2003 Bonds shall apply.
- (D) The City and the Paying Agent shall have no responsibility or obligation to any participant or correspondent of DTC or to any beneficial owner on behalf of which such participants or correspondents act as agent for the beneficial owner with respect to:
  - (1) the accuracy of the records of DTC, the nominee or any participant or correspondent with respect to any beneficial owner's interest in the 2003 Bonds;
  - (2) the delivery to any participant or correspondent or any other person of any notice with respect to the 2003 Bonds, including any notice of prepayment;
  - (3) the selection by DTC of the beneficial interest in 2003 Bonds to be redeemed prior to maturity; or
  - (4) the payment to any participant, correspondent, or any other person other than the registered owner of the 2003 Bonds as shown in the registration books maintained by the Paying Agent, of any amount with respect to principal, any premium or interest on the 2003 Bonds.
- (E) The City shall pay or cause to be paid all principal, premium and interest on the 2003 Bonds only to or upon the order of the owner, as shown in the registration books maintained by the Paying Agent, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the City's obligation with respect to payment thereof to the extent of the sum or sums so paid.
- (F) The provisions of this Section 13.5. may be modified without the consent of the beneficial owners in order to conform this Section to the standard practices of DTC or any successor depository for bonds issued in BEO form.

#### 13.6. Redemption of 2003 Bonds.

- (A) The City reserves the right to purchase 2003 Bonds in the open market.

- (B) If any 2003 Bonds are subject to mandatory redemption, the City may credit against the mandatory redemption requirement any 2003 Bonds of the same maturity which the City has previously purchased or which the City has previously redeemed pursuant to any optional redemption provision.
- (C) So long as 2003 Bonds are in BEO form, the Paying Agent shall notify DTC of any early redemption not less than 30 days prior to the date fixed for redemption, and shall provide such information in connection therewith as required by a letter of representation submitted to DTC in connection with the issuance of the 2003 Bonds.
- (D) During any period in which the 2003 Bonds are not in BEO form, unless waived by any Owner of the 2003 Bonds to be redeemed, official notice of any redemption of 2003 Bonds shall be given by the Paying Agent on behalf of the City by mailing a copy of an official redemption notice by first class mail postage prepaid at least 30 days and not more than 60 days prior to the date fixed for redemption to the Owner of the 2003 Bond or Bonds to be redeemed at the address shown on the 2003 Bond register or at such other address as is furnished in writing by such Owner to the Paying Agent. The City shall notify the Paying Agent of any intended redemption not less than 45 days prior to the redemption date. All such official notices of redemption shall be dated and shall state:
  - (1) the redemption date,
  - (2) the redemption price,
  - (3) if less than all Outstanding 2003 Bonds are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the 2003 Bonds to be redeemed,
  - (4) that on the redemption date the redemption price will become due and payable upon each such 2003 Bond or portion thereof called for redemption, and that interest thereon shall cease to accrue from and after said date, and
  - (5) the place where such 2003 Bonds are to be surrendered for payment of the redemption price, which place of payment shall be the principal office of the Paying Agent.

13.7. Authentication, Registration and Transfer.

- (A) No 2003 Bond shall be entitled to any right or benefit under this Declaration unless it shall have been authenticated by an authorized officer of the Paying Agent. The Paying Agent shall authenticate all 2003 Bonds to be delivered at closing of the 2003 Bonds, and shall additionally authenticate all 2003 Bonds properly surrendered for exchange or transfer pursuant to this Declaration.
- (B) The ownership of all 2003 Bonds shall be entered in the 2003 Bond register maintained by the Paying Agent, and the City and the Paying Agent may treat the person listed as owner in the 2003 Bond register as the owner of the 2003 Bond for all purposes.

- (C) While the 2003 Bonds are in BEO form, the Paying Agent shall transfer 2003 Bond principal and interest payments in the manner required by DTC.
- (D) If the 2003 Bonds cease to be in BEO form, the Paying Agent shall mail each interest payment on the interest Payment Date (or the next Business Day if the Payment Date is not a Business Day) to the name and address of the Owners as they appear on the 2003 Bond register as of the Record Date for the 2003 Bonds. If payment is so mailed, neither the City nor the Paying Agent shall have any further liability to any party for such payment.
- (E) 2003 Bonds may be exchanged for an equal principal amount of 2003 Bonds of the same maturity which are in different denominations, and 2003 Bonds may be transferred to other Owners if the Owner submits the following to the Paying Agent:
  - (1) written instructions for exchange or transfer satisfactory to the Paying Agent, signed by the Owner or attorney in fact and guaranteed or witnessed in a manner satisfactory to the Paying Agent and
  - (2) the 2003 Bonds to be exchanged or transferred.
- (F) The Paying Agent shall not be required to exchange or transfer any 2003 Bonds submitted to it during any period beginning with a Record Date and ending on the next following Payment Date; however, such 2003 Bonds shall be exchanged or transferred promptly following that Payment Date.
- (G) The Paying Agent shall note the date of authentication on each 2003 Bond. The date of authentication shall be the date on which the Owner's name is listed on the 2003 Bond register.
- (H) For purposes of this Section 13.7, 2003 Bonds shall be considered submitted to the Paying Agent on the date the Paying Agent actually receives the materials described in Section 13.7(E), above.
- (I) The City may alter these provisions regarding registration and transfer by mailing notification of the altered provisions to all Owners. The altered provisions shall take effect on the date stated in the notice, which shall not be earlier than 45 days after notice is mailed.

Dated as of this 26<sup>th</sup> day of June, 2003.

City of Portland, Oregon

By: 

Eric H. Johansen, Debt Manager



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

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**FIRST SUPPLEMENTAL  
BOND DECLARATION**

**City of Portland, Oregon**

**River District Urban Renewal and Redevelopment Bonds**

**2012 SERIES A  
(FEDERALLY TAXABLE)**

**2012 SERIES B  
(TAX-EXEMPT REFUNDING AND GOVERNMENTAL PURPOSE)**

**2012 SERIES C  
(TAX-EXEMPT - NON-AMT PRIVATE ACTIVITY)**

**EXECUTED BY THE DEBT MANAGER OF THE CITY OF PORTLAND, OREGON  
Dated as of the \_\_ day of \_\_\_\_, 2012**

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## **FIRST SUPPLEMENTAL BOND DECLARATION**

THIS FIRST SUPPLEMENTAL BOND DECLARATION is executed as of \_\_\_\_, 2012 by the Debt Manager of the City of Portland, Oregon pursuant to the authority granted to the Debt Manager by City Ordinance No. \_\_\_\_ adopted \_\_\_\_ to establish the terms under which the City's River District Urban Renewal and Redevelopment Bonds, 2012 Series A, 2012 Series B, and 2012 Series C may be issued as Bonds under the City's Bond Declaration for the River District Urban Renewal Area that is dated as of June 26, 2003.

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

The Council finds:

1.1. The City and the Portland Development Commission have formed the River District Urban Renewal Area (the "Area") in compliance with the requirements of Oregon law. The ordinance approving the urban renewal plan was enacted on October 21, 1998, and no petitions were filed with the City or the Portland Development Commission seeking to refer the ordinance creating the plan and River District Urban Renewal Area to City voters. Ordinance No. \_\_\_\_, as amended, established a maximum indebtedness of \_\_\_\_ for the Plan. \$\_\_\_\_ of that amount remains available prior to issuance of the 2012 Bonds.

1.2. In its Resolution No. \_\_\_\_ adopted on \_\_\_\_, the Portland Development Commission has requested the City to issue the 2012 Bonds pursuant to Section 15-106 of the Charter of the City of Portland.

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

1.4. This First Supplemental Declaration provides the terms under which the City's River District Urban Renewal and Redevelopment Bonds, 2012 Series A and 2012 Series B are issued as Parity Indebtedness under the Bond Declaration for the River District Urban Renewal Area.

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

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

"2003 Bonds" means the River District Urban Renewal and Redevelopment Bonds 2003 Series A (Tax Exempt) and 2003 Series B (Federally Taxable) that are dated as of June 26, 2003.

"2012 Bonds" means the 2012 Series A Bonds, the 2012 Series B Bonds and the 2012 Series C Bonds.

“2012 Series A Bonds” means the City’s River District Urban Renewal and Redevelopment Bonds, 2012 Series A (Federally Taxable) which are described in Section 3.1 of this First Supplemental Declaration.

“2012 Series B Bonds” means the City’s River District Urban Renewal and Redevelopment Bonds, 2012 Series B (Tax-Exempt Refunding and Governmental Purpose) which are described in Section 3.2 of this First Supplemental Declaration.

“2012 Series C Bonds” means the City’s River District Urban Renewal and Redevelopment Bonds, 2012 Series C (Tax-Exempt Non-AMT Private Activity) which are described in Section 3.3 of this First Supplemental Declaration.

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

“First Supplemental Declaration” means this First Supplemental Bond Declaration dated as of \_\_\_\_, 2012, as it may be amended and supplemented in accordance with the terms of the Master Declaration.

“Master Declaration” means the Bond Declaration for the River District Urban Renewal Area dated as of June 26, 2003, as supplemented by this First Supplemental Bond Declaration, and as it may be supplemented in the future in accordance with its terms.

“Record Date” means for the 2012 Bonds is the last business day of the calendar month immediately preceding each 2012 Bond Payment Date.

### **Section 3. The 2012 Bonds.**

#### **3.1. The 2012 Series A Bonds**

- (A) The 2012 Series A Bonds shall be issued as Parity Indebtedness under the Master Declaration in the aggregate principal amount of \$\_\_\_\_, shall be dated \_\_\_\_, 2012, shall bear interest which is payable on \_\_\_\_ and \_\_\_\_ of each year, commencing \_\_\_\_, 2012, and shall mature on the following dates in the following principal amounts:

<u>Date</u> <u>(June 15)</u>	<u>Principal</u> <u>Amount (\$)</u>	<u>Interest</u> <u>Rate (%)</u>	<u>CUSIP Number</u> <u>(Base )</u>
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- (B) *Par Optional Redemption.* The 2012 Series A Bonds maturing on \_\_\_\_ are subject to optional redemption at the election of the City, prior to their maturity date, on any date on or after \_\_\_\_, in whole or in part (and if in part, by lot in integral multiples of \$5,000), at a redemption price equal to 100 percent of the principal amount thereof, plus accrued but unpaid interest to the date fixed for redemption, from amounts deposited with the Paying Agent by the City and from any other funds available therefor.
- (C) *Make-Whole Optional Redemption.* The 2012 Series A Bonds are subject to optional redemption by the City prior to their stated maturity dates, as a whole or in part (and if in part, from the maturities selected by the City and by lot within a maturity in integral multiples of \$5,000), on any business day, at the “Make-Whole Redemption Price,” plus accrued and unpaid interest on the 2012 Series A Bonds to be redeemed on the date fixed for redemption. The following definitions shall apply to the terms used in this Section 3.1(B):
- (1) The “Make-Whole Redemption Price” is the greater of (i) 100 percent of the principal amount of the 2012 Series A Bonds to be redeemed and (ii) the sum of the present value of the remaining scheduled payments of principal and interest on the 2012 Series A Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such 2012 Series A Bonds are to be redeemed, discounted to the date on which the 2012 Series A Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the “Treasury Rate” defined below, plus 40 basis points.
  - (2) “Treasury Rate” means, with respect to any redemption date for a 2012 Series A Bond, the rate per annum, expressed as a percentage of the principal amount, equal to the semi-annual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.
  - (3) “Comparable Treasury Issue” means the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the 2012 Series A Bond to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the 2012 Series A Bond to be redeemed.
  - (4) “Comparable Treasury Price” means, with respect to any redemption date for a 2012 Series A Bond:
    - (i) the most recent yield data for the applicable U.S. Treasury maturity index from the Federal Reserve Statistical Release H.15 Daily Update (or any

comparable or successor publication) reported, as of 11:00 a.m. New York City time, on the Valuation Date; or

- (ii) if the yield described in (1) above is not reported as of such time or the yield reported as of such time is not ascertainable, the average of four Reference Treasury Dealer Quotations for that redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all quotations obtained by the Designated Investment Banker.
  - (5) “Designated Investment Banker” means one of the Reference Treasury Dealers appointed by the City.
  - (6) “Reference Treasury Dealer” means each of four firms, specified by the City from time to time, that are primary United States Government securities dealers in the City of New York (each, a “Primary Treasury Dealer”); provided, that if any of them ceases to be a Primary Treasury Dealer, the State is to substitute another Primary Treasury Dealer.
  - (7) “Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date for a 2012 Series A Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the Valuation Date.
  - (8) “Valuation Date” means a date that is no earlier than four (4) days prior to the date the redemption notice is to be delivered pursuant to Section 3.3(v) herein. .
- (D) The 2012 Series A Bonds maturing on \_\_\_\_ are subject to mandatory redemption in part and by lot within a maturity in integral multiples of \$5,000, at a redemption price equal to 100 percent of the principal amount thereof, plus accrued but unpaid interest to the date fixed for redemption and on June 15 of the years shown in the table below:

<u>Year</u>	<u>Principal Amount</u>
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\*Final maturity.



(E) The 2012 Series A Bonds shall be Taxable Bonds.

3.2. The 2012 Series B Bonds

(A) The 2012 Series B Bonds shall be issued as Parity Indebtedness under the Master Declaration in the aggregate principal amount of \$\_\_\_\_, shall be dated \_\_\_\_, 2012, shall bear interest which is payable on \_\_\_\_ and \_\_\_\_ of each year, commencing \_\_\_\_, 2012, and shall mature on the following dates in the following principal amounts:

<u>Date</u> <u>(June 15)</u>	<u>Principal</u> <u>Amount (\$)</u>	<u>Interest</u> <u>Rate (%)</u>	<u>CUSIP Number</u> <u>(Base ____)</u>
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(B) *Par Optional Redemption.* The 2012 Series B Bonds maturing on or after \_\_\_\_ are subject to optional redemption at the election of the City, prior to their respective maturity dates, on any date on or after \_\_\_\_, in whole or in part (and if in part, from the maturities selected by the City and by lot within a maturity in integral multiples of \$5,000), at a redemption price equal to 100 percent of the principal amount thereof, plus accrued but unpaid interest to the date fixed for redemption, from amounts deposited with the Paying Agent by the City and from any other funds available therefor.

While the 2012 Series B Bonds are in BEO form, if less than all the outstanding 2012 Series B Bonds of a particular maturity are to be redeemed, DTC will select the particular 2012 Series B Bonds in accordance with its customary practices.

(C) The 2012 Series B Bonds shall be Tax-Exempt Bonds, and the City covenants not to take any action, or omit to take any action, if the taking or omitting would cause interest on the 2012 Series A Bonds to become includable in gross income under the Code.

3.3. The 2012 Series C Bonds

(A) The 2012 Series C Bonds shall be issued as Parity Indebtedness under the Master Declaration in the aggregate principal amount of \$\_\_\_\_, shall be dated \_\_\_\_, 2012, shall bear interest which is payable on \_\_\_\_ and \_\_\_\_ of each year, commencing \_\_\_\_, 2012, and shall mature on the following dates in the following principal amounts:

<u>Date</u> <u>(June 15)</u>	<u>Principal</u> <u>Amount (\$)</u>	<u>Interest</u> <u>Rate (%)</u>	<u>CUSIP Number</u> <u>(Base ____)</u>
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- (B) *Par Optional Redemption.* The 2012 Series C Bonds maturing on or after \_\_\_\_ are subject to optional redemption at the election of the City, prior to their respective maturity dates, on any date on or after \_\_\_\_, in whole or in part (and if in part, from the maturities selected by the City and by lot within a maturity in integral multiples of \$5,000), at a redemption price equal to 100 percent of the principal amount thereof, plus accrued but unpaid interest to the date fixed for redemption, from amounts deposited with the Paying Agent by the City and from any other funds available therefor.

While the 2012 Series C Bonds are in BEO form, if less than all the outstanding 2012 Series C Bonds of a particular maturity are to be redeemed, DTC will select the particular 2012 Series C Bonds in accordance with its customary practices.

- (C) The 2012 Series C Bonds shall be Tax-Exempt Bonds, and the City covenants not to take any action, or omit to take any action, if the taking or omitting would cause interest on the 2012 Series C Bonds to become includable in gross income under the Code.

#### 3.4. Administrative Provisions for the 2012 Bonds.

- (A) *Payment of 2012 Bonds.* Principal of and interest on the 2012 Bonds shall be payable through the principal office of the Paying Agent. The 2012 Bonds shall be special obligations of the City, and shall be payable solely from the Security. The City hereby irrevocably pledges the Security to pay the Bonds. Pursuant to ORS 287A.310, this pledge shall be valid and binding from the Closing date of the 2012 Bonds. The amounts so pledged and received by the City shall immediately be subject to the lien of these pledges without any physical delivery or further act, and the lien of these pledges shall be superior to all other claims and liens whatsoever.
- (B) *Book-Entry System.* The 2012 Bonds shall be initially issued as a book-entry only security issue, with no 2012 Bonds being made available to the beneficial owners, in accordance with the applicable Letter of Representations of The Depository Trust Company. Ownership of the 2012 Bonds shall be recorded through entries on the books of banks and broker-dealer participants and correspondents that are related to entries on The Depository Trust Company book-entry-only system. The 2012 Bonds shall be initially issued in the form of separate single fully registered typewritten bonds for each series and maturity of the 2012 Bonds (the "Global Bonds") in substantially the form attached hereto as Exhibit A. Each Global Bond shall be registered in the name of CEDE & CO. as nominee (the "Nominee") of The Depository Trust Company ("DTC") (DTC and any other qualified securities depository designated by the City as a successor to DTC, collectively the "Depository") as the "Owner," and such Global Bonds shall remain in the Paying Agent's custody, subject to the provisions of the FAST Balance Certificate Agreement currently in effect between the Paying Agent and the Depository until early redemption or maturity of the 2012 Bond. The Paying Agent shall remit payment for the

maturing principal or redemption price and interest on the 2012 Bonds to the Owner for distribution by the Nominee for the benefit of the beneficial owners (the “Beneficial Owners”) by recorded entry on the books of the Depository participants and correspondents. While the 2012 Bonds are in book-entry-only form, the 2012 Bonds will be available in denominations of \$5,000 and any integral multiple thereof.

- (1) In the event the Depository determines not to continue to act as securities depository for the 2012 Bonds, or the City determines that the Depository shall no longer so act, then the City will discontinue the book-entry-only system with the Depository. If the City fails to designate another qualified securities depository to replace the Depository or elects to discontinue use of a book-entry-only system, the 2012 Bonds shall no longer be a book-entry-only issue and the 2012 Bonds shall be printed and delivered and shall be registered as directed by DTC and thereafter shall be registered, transferred and exchanged as provided in Section 3.4(D) herein.
- (2) With respect to 2012 Bonds registered in the registration books maintained by the Paying Agent in the name of the Nominee of the Depository, the City, and the Paying Agent shall have no responsibility or obligation to any participant or correspondent of the Depository or to any Beneficial Owner on behalf of which such participants or correspondents act as agent for the Beneficial Owner with respect to:
  - (iii) the accuracy of the records of the Depository, the Nominee or any participant or correspondent with respect to any ownership interest in the 2012 Bonds;
  - (iv) the delivery to any participant or correspondent or any other person, other than an Owner, of any notice with respect to the 2012 Bonds, including any notice of redemption;
  - (v) the selection by the Depository of the beneficial ownership interest in 2012 Bonds to be redeemed prior to maturity; or
  - (vi) the payment to any participant, correspondent, or any other person other than the Owner of the 2012 Bonds, of any amount with respect to principal of or interest on the 2012 Bonds.
- (3) Notwithstanding the book-entry-only system, the City may treat and consider the Owner in whose name each 2012 Bond is registered in the registration books maintained by the Paying Agent as the Owner and absolute owner of such 2012 Bond for the purpose of payment of principal and interest with respect to such 2012 Bond, or for the purpose of giving notices of redemption and other matters with respect to such Bond, or for the purpose of registering transfers with respect to such 2012 Bond, or for all other purposes whatsoever. The City shall pay or cause to be paid all principal of and interest on the 2012 Bonds only to or upon

the order of the Owner or such Owner's respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the City's obligation with respect to payment thereof to the extent of the sum or sums so paid.

- (4) Upon delivery by the Depository to the City of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, then the word "Nominee" in the Master Declaration shall refer to such new nominee of the Depository, and upon receipt of such notice, the City shall promptly deliver a copy thereof to the Paying Agent. The Depository shall tender the 2012 Bonds it holds to the Paying Agent for re-registration.

(C) Notice of Redemption.

- (1) For any 2012 Bonds which are not in book-entry form, unless waived by the Owner of such a 2012 Bond, official notice of any redemption shall be given by the Paying Agent on behalf of the City by mailing a copy of an official redemption notice by first-class mail at least 20 days and not more than 60 days prior to the date fixed for redemption to the Owner of the 2012 Bond or 2012 Bonds to be redeemed at the address shown on the Bond register or at such other address as is furnished in writing by such Owner to the Paying Agent.
- (2) Unless DTC consents to a shorter period, for any 2012 Bonds which are in book-entry form the Paying Agent shall notify DTC not less than 20 days prior to the date fixed for redemption of the maturity to be redeemed in the manner required in the City's Letter of Representations to DTC. No other notice shall be required.
- (3) In addition to the requirements of Section 3.4(C)(5), all official notices of redemption shall be dated and shall state:
  - (vii) the date fixed for redemption,
  - (viii) the redemption price,
  - (ix) if less than all outstanding 2012 Bonds are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the 2012 Bonds to be redeemed,
  - (x) except for calls described in Section 3.4(C)(5), below, that on the date fixed for redemption the redemption price will become due and payable upon each such 2012 Bond or portion thereof called for redemption, and that interest thereon shall cease to accrue from and after said date, and
  - (xi) the place where such 2012 Bonds are to be surrendered for payment of the redemption price, which place of payment shall be an office of the Paying Agent.

- (4) Except for calls described in Section 3.4(C)(5), below, official notice of redemption having been given as aforesaid, the 2012 Bonds or portions of 2012 Bonds so to be redeemed shall, on the date fixed for redemption, become due and payable at the redemption price therein specified, and from and after such date (unless the City shall default in the payment of the redemption price) such 2012 Bonds or portions of 2012 Bonds shall cease to bear interest. Upon surrender of such 2012 Bonds for redemption in accordance with said notice, such 2012 Bonds shall be paid by the Paying Agent at the redemption price. Installments of interest due on or prior to the date fixed for redemption shall be payable as in the Master Declaration provided for payment of interest. Upon surrender for any partial redemption of any 2012 Bond, there shall be prepared for the Owner a new 2012 Bond or 2012 Bonds of the same maturity in the amount of the unpaid principal. All 2012 Bonds which have been redeemed shall be canceled and destroyed by the Paying Agent and shall not be reissued.
  - (5) Conditional Notice. Any notice of optional redemption to the Paying Agent or to the Owners pursuant to this Section 3.4 may state that the optional redemption is conditional upon receipt by the Paying Agent of moneys sufficient to pay the redemption price of such 2012 Bonds or upon the satisfaction of any other condition, and/or that such notice may be rescinded upon the occurrence of any other event, and any conditional notice so given may be rescinded at any time before payment of such redemption price if any such condition so specified is not satisfied or if any such other event occurs. Notice of such rescission or of the failure of any such condition shall be given by the Paying Agent to affected Owners of 2012 Bonds as promptly as practicable upon the failure of such condition or the occurrence of such other event.
  - (6) Upon the payment of the redemption price of the 2012 Bonds being redeemed, each check or other transfer of funds issued for such purpose shall bear the CUSIP number identifying, by issue and maturity, the 2012 Bonds being redeemed with the proceeds of such check or other transfer.
- (D) Authentication, Registration and Transfer. (No Book-Entry). The provisions of this Section 3.4(D) apply only when the 2012 Bonds are not in book-entry form.
  - (1) No 2012 Bond shall be entitled to any right or benefit under the Master Declaration unless it shall have been authenticated by an authorized officer of the Paying Agent. The Paying Agent shall authenticate all 2012 Bonds properly surrendered for exchange or transfer pursuant to the Master Declaration.
  - (2) The ownership of all 2012 Bonds shall be entered in the 2012 Bond register maintained by the Paying Agent, and the City and the Paying Agent may treat the person listed as owner in the 2012 Bond register as the owner of the 2012 Bond for all purposes.

- (3) The Paying Agent shall mail each interest payment on the interest payment date (or the next Business Day if the payment date is not a Business Day) to the name and address of the 2012 Bond Owner, as that name and address appear on the 2012 Bond register as of the Record Date. If payment is so mailed, neither the City nor the Paying Agent shall have any further liability to any party for such payment.
- (4) 2012 Bonds may be exchanged for an equal principal amount of 2012 Bonds of the same series and maturity which are in different authorized denominations, and 2012 Bonds may be transferred to other owners if the 2012 Bond Owner submits the following to the Paying Agent:
  - (xii) written instructions for exchange or transfer satisfactory to the Paying Agent, signed by the 2012 Bond Owner or such Owner's legal representative or attorney in fact and guaranteed or witnessed in a manner satisfactory to the Paying Agent; and
  - (xiii) the 2012 Bonds to be exchanged or transferred.
- (5) The Paying Agent shall not be required to exchange or transfer any 2012 Bonds submitted to it during any period beginning with a Record Date and ending on the next following interest payment date; however, such 2012 Bonds shall be exchanged or transferred promptly following the interest payment date.
- (6) The Paying Agent shall not be required to exchange or transfer any 2012 Bonds which have been designated for redemption if such 2012 Bonds are submitted to it during the fifteen-day period preceding the designated date fixed for redemption.
- (7) For purposes of this Section, 2012 Bonds shall be considered submitted to the Paying Agent on the date the Paying Agent actually receives the materials described in Section 3.4(B)(4).
- (8) The City may alter these provisions regarding registration and transfer by mailing notification of the altered provisions to all 2012 Bond Owners. The altered provisions shall take effect on the date stated in the notice, which shall not be earlier than 45 days after notice is mailed.

### 3.5. Form, Execution and Authentication.

The 2012 Bonds shall be in substantially the form attached hereto as Appendix A, with such changes as may be approved by the Debt Manager. The 2012 Bonds shall be executed on behalf of the City with the facsimile signatures of the Mayor and City Auditor.

#### **Section 4. Deposit to the Reserve Account**

At closing the City shall obtain a Reserve Credit Facility or make a deposit in the Reserve Account that is sufficient to make the balance in the Reserve Account at least equal to the Reserve Requirement, calculated with the 2012 Bonds as Outstanding.

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

5.1. By purchasing the 2012 Bonds, all Owners of the 2012 Bonds are deemed to have irrevocably consented to the amendments in this Section 5. To put an amendment described in this Section 5 into effect the City may need to receive consent of the insurer of the outstanding 2003 Bonds. The insurer of the 2003 Bonds is authorized by Section 10.1(B) of the Master Declaration to consent to amendments on behalf of the Owners of the 2003 Bonds.

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

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

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

5.3. Additional Amendments Related to Interest Subsidy Bonds.

- (A) The first sentence of the definition of “Security” in Section 2 of the Master Declaration may be amended to add “any Federal Interest Subsidies.”
- (B) Section 4.1 of the Master Declaration may be amended to require that Federal Interest Subsidies shall be deposited in the Debt Service Account of the Tax Increment Fund when they are received, and, if that deposit causes the balance in the Debt Service Account to exceed the amount required to pay the Scheduled Debt Service for that Levy Year, to allow an amount of Tax Increment Revenues that is equal to the excess to be released from the Debt Service Account.

- (C) The term “Adjusted Annual Debt Service” may be substituted for “Annual Debt Service” in all sections of the Master Declaration (including this First Supplemental Declaration) except the definition of “Annual Debt Service” and the definition of “Tax Maximum” in Section 2 of the Master Declaration.
- (D) The term “Adjusted Maximum Annual Debt Service” may be substituted for “Maximum Annual Debt Service” in all sections of the Declaration (including this First Supplemental Declaration).

5.4. Amendments relating to Reserve Equivalents.

- (A) The definition of “Reserve Equivalent” may be amended to clarify that the rating requirement for a Reserve Equivalent applies only at the time the Reserve Equivalent is issued.
- (B) The following definition of “Reserve Credit Event” may be added to Section 2 of the Master Declaration as follows:

“Reserve Credit Event” means the occurrence of any of the following: (a) the withdrawal or suspension of all Reserve Equivalent Ratings for a Reserve Equivalent; or (b) the downgrading of all Reserve Equivalent Ratings for a Reserve Equivalent below investment grade, or the equivalent rating reasonably determined by the City if rating terminology changes after May, 2012 (As of May, 2012, a rating below investment grade by Moody’s is a rating below Baa3, and a rating below investment grade by S&P is a rating below BBB-); or (c) the City properly tenders a request for funds under a Reserve Equivalent, and the requested funds are not delivered materially in accordance with the terms of such Reserve Equivalent.

- (C) The following definition of “Reserve Equivalent Rating” may be added to Section 2 of the Master Declaration as follows:

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

- (D) Section 4.1(B) and related provisions of the Master Declaration may be amended to provide that:
  - (1) if the balance in the Reserve Account is less than the Reserve Requirement as a result of a withdrawal from the Reserve Account pursuant to Section 4.2(C) of the Bond Declaration, the deficiency shall be restored in full from the first Divide the Taxes Revenues that are available under Section 4.1(B).
  - (2) if the balance in the Reserve Account is less than the Reserve Requirement as a result of a Reserve Credit Event, the deficiency may be restored in not more than three, substantially equal annual installments from the first Divide the Taxes Revenues that are available under Section 4.1(B).



5.5. Amendments Relating to Reserves for Future Parity Indebtedness.

- (A) The City may amend the Master Declaration to provide that all amounts then in the Reserve Account may be credited to a separate subaccount in the Reserve Account (the “Prior Bonds Subaccount”) that secures only the 2003 Bonds, the 2012 Bonds, and any future Parity Indebtedness the City elects to secure with the Prior Bonds Subaccount. The amendments shall require the City to:
- (1) maintain a balance in the Prior Bonds Subaccount that is equal to the Reserve Requirement, calculated only with respect to Bonds that are secured by the Prior Bonds Subaccount;
  - (2) make deposits to replenish the Prior Bonds Subaccount pursuant to Section 4.1(B) of the Master Declaration, *pro rata* with any deposits that are required to be made under that section to replenish other subaccounts in the Reserve Account.
- (B) The City may amend the Master Declaration to create separate subaccounts in the Reserve Account to secure Bonds issued after the 2012 Bonds (“New Subaccounts”). Bonds that are secured by New Subaccounts shall not be secured by the Prior Bonds Subaccount. The City may specify the minimum amount the City is required to maintain in any New Subaccount, and the existing provisions of the Master Declaration shall not be construed to require the City to maintain any particular balance in a New Subaccount. If the City creates a New Subaccount the City may also specify:
- (1) Whether credit facilities may be credited to a New Subaccount, and how those credit facilities will be valued.
  - (2) The type of investments that may be credited to a New Subaccount and how those investments will be valued;
  - (3) The periodic deposits that are required to replenish the New Subaccount pursuant to Section 4.1(B) of the Master Declaration. However, any deposits that are required to replenish a New Subaccount shall be made *pro rata* with deposits that are required to replenish the Prior Bonds Subaccount.
  - (4) Any other matters relating to the deposit to and application of funds from, each New Subaccount.

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

- (A) Section 7.7 of the Master Declaration may be deleted and replaced with the following three sections:

7.9. Before the City or the Commission takes formal action to limit the collection of the Divide the Taxes Revenues for a single Fiscal Year under ORS 457.455(1) (or any subsequent statute that allows the City to reduce its collections of Divide the Taxes Revenues for a single Fiscal Year), the Debt Manager shall project the Divide the Taxes

Revenues which will be available from the Area after such action is taken. Neither the City nor the Commission shall reduce collections for that Fiscal Year unless the Debt Manager reasonably projects that the reduction will not cause Divide the Taxes Revenues for such Fiscal Year to fall below one hundred ten percent (110.00%) of the Maximum Annual Debt Service on all then Outstanding Bonds (calculated as if all Outstanding Bonds were part of a single Series).

7.10. Before the City or the Commission takes formal action to permanently limit the future collection of the Divide the Taxes Revenues under ORS 457.455(2) (or any subsequent statute that allows the City to elect to permanently reduce its future collections of Divide the Taxes Revenues), the Debt Manager shall project the Divide the Taxes Revenues which will be available from the Area after such action is taken. Neither the City nor the Commission shall permanently reduce collections unless the Debt Manager reasonably projects that the reduction will not cause Divide the Taxes Revenues to fall below one hundred thirty percent (130.00%) of the Maximum Annual Debt Service on all then Outstanding Bonds (calculated as if all Outstanding Bonds were part of a single Series).

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

5.7. The rights of the insurer of the 2003 Bonds are not specified in the Bond Declaration, but the City has entered into an agreement with the insurer of the 2003 Bonds (the "Insurance Agreement"), and the Insurance Agreement references the Bond Declaration. Unless the City obtains the consent of the insurer of the 2003 Bonds, the amendments described this Section 5 shall not affect the interpretation of the Insurance Agreement.

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

The City may amend any portion of the Master Declaration that affects the insurer of the 2003 Bonds and any provision of the Insurance Agreement without notice to, or consent of, the Owners of the 2012 Bonds.

Dated as of the \_\_\_\_ day of \_\_\_\_\_, 2012.

City of Portland, Oregon

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

**EXHIBIT A**  
Form of 2012 Bond

No. R-«BondNumber»

\$«PrincipalAmtNumber»

United States of America  
State of Oregon  
Counties of Multnomah, Washington and Clackamas  
**City of Portland**  
River District Urban Renewal and Redevelopment Bonds  
2012 Series A/B/C

**Dated Date:** July 20, 2012

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

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

**CUSIP Number:** «CUSIPNumbr»

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

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

The City of Portland, Oregon (the “City”), for value received, acknowledges itself indebted and hereby promises to pay to the Registered Owner hereof, or registered assigns, but solely from the sources named below, the Principal Amount indicated above on the Maturity Date indicated above together with interest thereon from the date hereof at the Interest Rate Per Annum indicated above, computed on the basis of a 360-day year of twelve 30-day months. Interest is payable semiannually on the \_\_\_ day of \_\_\_ and the \_\_\_ day of \_\_\_ in each year until maturity or prior redemption, commencing \_\_\_\_\_. Payment of each installment of principal or interest shall be made to the Registered Owner hereof whose name appears on the registration books of the City maintained by the City’s paying agent and registrar, which is currently U.S. Bank National Association, in Portland, Oregon (the “Paying Agent”), as of the close of business on the last day of the calendar month immediately preceding the applicable interest payment date. For so long as this Bond is subject to a book-entry-only system, principal and interest payments shall be paid on each payment date to the nominee of the securities depository for the Bonds. On the date of issuance of this Bond, the securities depository for the Bonds is The Depository Trust Company, New York, New York, and Cede & Co. is the nominee of The Depository Trust Company. Such payments shall be made payable to the order of “Cede & Co.”

This Bond is one of a duly authorized series of bonds of the City aggregating \$\_\_\_/\_\_\_ in principal amount designated as River District Urban Renewal and Redevelopment Bonds, 2012 Series A/B/C (the “Bonds”). The Bonds are issued for the purpose of financing and refinancing urban renewal projects within the River District Urban Renewal Area. The Bonds are authorized by City Ordinance No. \_\_\_ adopted \_\_\_, 20\_\_ (the “Ordinance”), Oregon Revised Statutes Chapter 457, a Bond Declaration, and a First Supplemental Bond Declaration executed by the City’s Debt Manager pursuant to the Ordinance. The provisions of the Ordinance, the Bond Declaration and the First Supplemental Declaration are hereby incorporated into this Bond by reference. The Bonds are issued in full and strict accordance and compliance with all of the provisions of the Constitution and Statutes of the State of Oregon and the Charter of the City.

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

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

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

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

The Bonds shall mature and be subject to redemption as described in Section 3 of the First Supplemental Bond Declaration and in the final Official Statement for the Bonds which is dated March 23, 2012.

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

Any exchange or transfer of this Bond must be registered, as provided in the Declaration, upon the Bond register kept for that purpose by the Paying Agent. The exchange or transfer of this Bond may be registered only by surrendering it, together with a written instrument of exchange or transfer which is satisfactory to the Paying Agent and which is executed by the registered owner or duly authorized attorney. Upon registration, a new registered Bond or Bonds, of the same maturity and in the same aggregate principal amount, shall be issued to the transferee as provided in the Declaration. The City and the Paying Agent may treat the person in whose name this Bond is registered on the Bond register as its absolute owner for all purposes, as provided in the Declaration.

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

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

IN WITNESS WHEREOF, the Council of the City of Portland, Oregon, has caused this Bond to be signed by facsimile signature of its Mayor and countersigned by facsimile signature of its Auditor, and has caused a facsimile of the corporate seal of the City to be imprinted hereon, all as of the date first above written.



**City of Portland, Oregon**

Sam Adams, Mayor

LaVonne Griffin-Valade, Auditor

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

CERTIFICATE OF AUTHENTICATION

This Bond is one of a series of \$\_\_\_\_/\_\_\_\_ aggregate principal amount of City of Portland, River  
District Urban Renewal and Redevelopment Bonds, 2012 Series A/B/C issued pursuant to the Declaration described  
herein.

Date of Authentication: \_\_\_\_, 2012.

**U.S. Bank National Association**, as Paying Agent

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

ASSIGNMENT

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

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

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

Dated: \_\_\_\_\_

-----

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

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

Signature Guaranteed

\_\_\_\_\_  
(Bank, Trust Company or Brokerage Firm)

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

The following abbreviations, when used in the inscription on the face of this Bond, shall be  
construed as though they were written out in full according to applicable laws or regulations.

TEN COM -- tenants in common

TEN ENT -- as tenants by the entireties

JT TEN -- as joint tenants with right of survivorship  
and not as tenants in common

OREGON CUSTODIANS use the following

\_\_\_\_ CUST UL OREG \_\_\_\_\_ MIN

as custodian for (name of minor)

OR UNIF TRANS MIN ACT

under the Oregon Uniform Transfer to Minors Act

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

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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 2007, 2008, 2009, 2010, and 2011. Copies of these financial statements containing the reports of the independent certified public accountants are available on the City's website at:

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

The following pages in this Appendix are excerpted from the City's Comprehensive Annual Financial Reports of the City for Fiscal Years ending June 30, 2007 through June 30, 2011. The Notes that follow the tabular data have been prepared by the City and have not been reviewed by the independent auditor.

A CONSENT OF THE INDEPENDENT AUDITOR WAS NOT REQUESTED. THE AUDITOR WAS NOT REQUESTED TO PERFORM AND HAS NOT PERFORMED ANY SERVICE IN CONNECTION WITH THE OFFERING OF THE 2012 BONDS AND IS THEREFORE NOT ASSOCIATED WITH THE OFFERING OF THE 2012 BONDS.



**CITY OF PORTLAND, OREGON**  
**River District Urban Renewal Area Debt Redemption Fund**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**Generally Accepted Accounting Principles Basis**

	<b>FY 2006-07</b>	<b>FY 2007-08</b>	<b>FY 2008-09</b>	<b>FY 2009-10</b>	<b>FY 2010-11</b>
<b>Revenues</b>					
Taxes	\$17,267,736	\$19,548,006	\$22,421,202	\$27,806,547	\$28,906,024
Investment earnings	666,487	593,033	432,286	112,206	159,377
Total revenues	17,934,223	20,141,039	22,853,488	27,918,753	29,065,401
<b>Expenditures</b>					
Current:					
Legislative/admin/support services	--	--	55,228	--	--
Debt service and related costs:					
Principal (1)	15,950,000	16,435,000	21,440,000	2,570,000	12,633,966
Interest	2,893,457	2,728,240	2,363,326	2,223,937	2,224,956
Total expenditures	18,843,457	19,163,240	23,858,554	4,793,937	14,858,922
Revenues over (under) expenditures	(909,234)	977,799	(1,005,066)	23,124,816	14,206,479
<b>Other Financing Sources (Uses)</b>					
Transfers in	--	--	--	--	--
Transfers out	--	--	--	(18,450,000)	(25,000,000)
Total other financing sources/uses	--	--	--	--	9,978,966
Net change in fund balances	(909,234)	977,799	(1,005,066)	4,674,816	(814,555)
<b>Fund balances -- beginning</b>	6,352,159	5,442,925	6,420,724	5,415,658	10,090,474
<b>Fund balances -- ending</b>	\$5,442,925	\$6,420,724	\$5,415,658	\$10,090,474	\$9,275,919

Notes:

(1) Amounts in FY 2006-07 through FY 2008-09 include debt service payments for subordinate indebtedness including "du jour bonds."

Source: City of Portland audited financial statements.

**CITY OF PORTLAND, OREGON**  
**River District Urban Renewal Area Debt Redemption Fund**  
**CONSECUTIVE BALANCE SHEETS (1)**  
**As of June 30**

	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>ASSETS</b>					
Restricted:					
Cash and investments	\$5,043,633	\$6,032,808	\$4,879,412	\$9,566,686	\$8,751,478
Receivables:					
Taxes	811,454	996,442	1,399,320	1,608,254	1,605,378
Accrued interest	142,228	102,337	154,620	53,085	79,757
Total assets	<u>\$5,997,315</u>	<u>\$7,131,587</u>	<u>\$6,433,352</u>	<u>11,228,025</u>	<u>\$10,436,613</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities payable from restricted assets:					
Deferred revenue	<u>\$554,390</u>	<u>\$710,863</u>	<u>\$1,017,694</u>	<u>\$1,137,551</u>	<u>\$1,160,694</u>
Total liabilities	<u>554,390</u>	<u>710,863</u>	<u>1,017,694</u>	<u>1,137,551</u>	<u>1,160,694</u>
Fund balances (deficits):					
Reserved for debt service	5,442,925	6,420,724	--	--	--
Unreserved	--	--	5,415,658	10,090,474	--
	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>9,275,919</u>
Total fund balances	<u>5,442,925</u>	<u>6,420,724</u>	<u>5,415,658</u>	<u>10,090,474</u>	<u>9,275,919</u>
Total liabilities and fund balances	<u>\$5,997,315</u>	<u>\$7,131,587</u>	<u>\$6,433,352</u>	<u>\$11,228,025</u>	<u>\$10,436,613</u>

Notes:

- (1) In years ending June 30, 2007, and June 30, 2008, inclusive, no distinction was made as to whether assets were "restricted" or "unrestricted" or whether liabilities were payable from "restricted" assets or "unrestricted" assets. These designations first appear in the CAFR for FY 2008-09. For comparative purposes, assets and liabilities in FY 2006-07 and FY 2007-08 are shown as restricted even though such designation was not made in the CAFRs for those years.

Source: City of Portland audited financial statements.

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**APPENDIX D**  
**CITY OPERATING AND FINANCIAL INFORMATION**

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## **CITY OPERATING AND FINANCIAL INFORMATION**

### **BASIS OF ACCOUNTING**

The governmental fund types, expendable trust funds and agency funds are maintained on the modified accrual basis of accounting. The accounting practices of the City and the Portland Development Commission (the “Commission”) conform to generally accepted accounting principles.

### **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. Moss Adams LLP has performed auditing services for FY 2002-03 through FY 2010-11.

A complete copy of the City’s FY 2010-11 audit is available on the City’s web site at <http://www.portlandonline.com/omf/index.cfm?c=57772>. The City’s web site is listed for reference only, and is not part of this Annual Disclosure document. Audited financial results for the Tax Increment Fund are found in Appendix A.

### **FINANCIAL REPORTING AND BUDGETING**

#### **Financial Reporting**

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

#### **Budget Process**

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

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

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

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

## **INSURANCE**

The City is self-insured for workers' compensation, general liability claims and certain employees' medical coverage in internal service funds. The Oregon Tort Claims Act (ORS 30.260 to 30.300) limits certain claims against the City for personal injury, death and property damage or destruction as described below. Claims under federal jurisdiction are not subject to such limitations. The City estimates liability for incurred losses for reported and unreported claims for workers' compensation, general and fleet liability and employee medical coverage (included in accrued self insurance claims in the combined statement of net assets).

Workers' compensation, general and fleet liability estimates are primarily based on individual case estimates for reported claims and through historical data for unreported claims as determined by the City's Risk Management 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. The 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, 2011, the expected rate of return is 0.65 percent. For fiscal year ending June 30, 2012, the expected rate of return is 0.45 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. The City's limits of coverage on the excess liability policy is \$30 million per claim above the \$1 million self-insurance retention. A tort claim for a loss from 2010 has been settled for \$1.2 million. The majority of the settlement will come from the excess insurance. An excess workers' compensation coverage insurance policy covers claims in excess of \$750,000. Currently this excess insurance will cover up to statutory limits.

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

Under ORS 30.272, the liability of a local public body and its officers, employees and agents acting within the scope of their employment or duties, to any single claimant for covered personal injury or death claims (and not property claims) arising out of a single accident or occurrence may not exceed \$566,700 for causes of action arising on or after July 1, 2011, and before July 1, 2012. 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 \$1,133,300, for causes of action arising on or after July 1, 2011, and before July 1, 2012, 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 ORS 30.272. The adjustment may not exceed three percent for any year.

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

Under ORS 30.273, the liability of a public body and its officers, employees and agents acting within the scope of their employment or duties, for covered claims for damage and destruction of property that arise from causes of action arising on or after July 1, 2011, and before July 1, 2012, are as follows: (a) \$101,400 for any single claimant and (b) \$506,900 to all claimants. These liability limits are adjusted based on a determination by a State Court Administrator of the percentage increase or decrease in the cost of living for the previous calendar year as provided in the formula in ORS 30.273. The adjustment may not exceed three percent for any year.

## **PENSION PLANS**

### **General**

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



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

Public employees hired on or after August 29, 2003, become part of OPSRP, unless membership was previously established in the T1/T2 Pension 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 October 2010, Mercer Human Resource Consulting (“Mercer”), the PERS actuary, released the City’s 2009 actuarial valuation report (the “2009 City Report”), which includes the City’s share of the System’s actuarial accrued liabilities and assets as of December 31, 2009 and provides the City’s employer contribution rates that are currently in effect (effective from July 1, 2011 through June 30, 2013). In November 2011, Mercer released an actuarial valuation for the City as of December 31, 2010 (the “2010 City Report”), which included the City’s share of the System’s actuarial accrued liability as of December 31, 2010 and provides the City’s advisory employer contribution rates.

### **Employer Asset Valuation and Liabilities**

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

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

The table below is a summary of principal valuation results from the 2009 City Report and the 2010 City Report.

**Table D-1**  
**CITY OF PORTLAND, OREGON**  
**Valuation Results for 2009 and 2010**  
**(as of December 31)**

	<b>2009</b>	<b>2010</b>
Allocated Pooled T1/T2 UAL/ (surplus)	\$178,802,989	\$168,908,108
Allocated Pooled OPSRP UAL/ (surplus)	3,216,137	3,818,471
Net unfunded pension actuarial accrued liability/(surplus)	\$182,019,126	\$172,726,579

Source: City of Portland, Oregon Public Employees Retirement System, 12/31/09 Valuation Report prepared by Mercer Human Resource Consulting and City of Portland, Oregon Public Employees Retirement System, 12/31/10 Valuation Report prepared by Mercer Human Resource Consulting.

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

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

### Employer Contribution Rates

Employer contribution rates are based upon the current and projected cost of benefits and the anticipated level of funding available from the OPERF, including known and anticipated investment performance of the OPERF. The City’s current employer contribution rates are based on the 2009 City Report. These rates became effective on July 1, 2011 and are effective through June 30, 2013. The 2010 City Report provides advisory employer contribution rates only.

In January 2010 the PERS Board adopted a revised implementation of the rate collar limiting increases in employer contribution rates from biennium to biennium (the “Rate Collar”). Under normal conditions, the Rate Collar is the greater of three percent of payroll or 20 percent of the current base rate. If the funded status of the SLGRP is below 80 percent, the Rate Collar increases by 0.3 percent for every percentage point under the 80 percent funded level until it reaches six percent at the 70 percent funded level. The 2009 System Valuation found that the SLGRP was 77 percent funded, resulting in a Rate Collar of 3.9 percent. The Rate Collar limits increases in employer contribution rates before rate reductions from side accounts are deducted, and does not cover charges associated with RHIA and RHIPA. Because the 2011-2013 employer contribution rates were reduced by the Rate Collar, further rate increases are anticipated for the 2013-2015 biennium. Although the 2010 City Report includes advisory employer contribution rates for the City, the City’s employer contribution rates for the 2013-2015 biennium will be reported in the City’s individual actuarial valuation report as of December 31, 2011. Presently, PERS anticipates that system-wide, the 2013-2015 rates will be increased by approximately 5 percent of covered payroll as a result of the implementation of the Rate Collar in the 2011-2013 biennium. This increase, however, will be subject to change based on the investment performance of OPERF and other factors. The City’s actual 2013-2015 contribution rate increase also may vary from the system-wide number.

The table below shows the City’s current employer contribution rates based on the 2009 City Report and the advisory rates identified in the 2010 City Report.

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

	<b>Current Rates</b>			<b>Advisory Rates</b>		
	<b>2011-2013</b>			<b>2013-15</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	8.71%	7.19%	9.90%	12.80%	10.99%	13.73%

Source: City of Portland, Oregon Public Employees Retirement System, 12/31/09 Valuation Report prepared by Mercer Human Resource Consulting and City of Portland, Oregon Public Employees Retirement System, 12/31/10 Valuation Report prepared by Mercer Human Resource Consulting.

Currently, one percent of covered payroll for the three pension benefit programs is approximately: \$1,904,948 for T1/T2 Pension Programs; \$790,418 for OPSRP general services; and \$150,863 for OPSRP police and fire. The City’s contribution rates may increase or decrease due to a variety of factors, including the investment performance of the OPERF, the use of reserves, further changes to system valuation methodology and assumptions and decisions by the PERS Board and changes in benefits resulting from legislative modifications.

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

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

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

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

Effective July 1, 1990, the FPDR Plan was amended to create the FPDR Two tier, which provides for the payment of benefits upon termination of employment on or after attaining age fifty-five, or on or after attaining age fifty if the member has twenty-five or more years of service. Members become 100 percent vested after five years of service. Members enrolled in the FPDR Plan prior to July 1, 1990 were required to make an election as to whether they wished to fall under the provisions of the FPDR Plan as constituted prior to July 1, 1990 (now called FPDR One) or become subject to the new FPDR Two provisions after June 30, 1990.

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

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

The 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 2011-12 levy of \$114,264,711 required a tax rate of \$2.4683 per \$1,000 of assessed property value, or approximately \$1.4078 per \$1,000 of gross real market value.

In accordance with the Charter's provisions, there are no requirements to fund the Plan using actuarial techniques, and the Charter indicates that the City cannot pre-fund the FPDR Plan benefits. As required by the Charter, the FPDR Fund's Board of Trustees estimates the amount of money required to pay and discharge all requirements of the FPDR Fund for the succeeding

fiscal year and submits this estimate to the City Council. The Council is required by Charter to annually levy a tax sufficient to provide amounts necessary to fund the estimated requirements for the upcoming year provided by the FPDR Fund's Board of Trustees. While the FPDR Fund has not experienced any funding shortfalls to date, future funding is dependent on the availability of property tax revenues and, in the absence of sufficient property tax revenues, City funds.

The FPDR Fund's Board periodically assesses the future availability of property tax revenues by having projections and simulations performed in connection with the Actuarial Valuation of the Fund. The most recent assessment was as of July 1, 2010. The Fund's Board believes that, under a wide range of simulated economic scenarios in the foreseeable future, the future FPDR Fund levy would remain under \$2.80 per \$1,000 of real market value, but reaching the \$2.80 threshold has a five percent or greater probability level starting in 2023 and an almost 10 percent probability in 2029.

Recognizing that the economic conditions have changed significantly over the past few years, the City reviewed the discount rate and assumptions utilized in the calculations of the actuarial valuation, including actuarial accrued pension liabilities and net pension obligation, and determined they should be revised to more closely match the funding and investment returns that actually are achieved under existing investment. The City revised the rate for the July 1, 2010, valuation from 4.50 percent to 4.00 percent. This change increased the unfunded actuarial liability by \$190 million. Overall the unfunded actuarial liability increased from \$2.21 billion on July 1, 2008 to \$2.53 billion on July 1, 2010.

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

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

#### **PERS Program**

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

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

#### **Health Insurance Continuation Option**

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

The City's actuary for its OPEB liability associated with the Health Insurance Continuation Option, AON Employee Benefits Consulting, completed an actuarial valuation for purposes of complying with the GASB 45 standards. The valuation was prepared using the Entry Age Normal actuarial cost method by spreading future normal costs evenly over future service ("EAN-Service"). The valuation was prepared using an amortization period of 30 years and an assumed discount rate of five percent. The City's actuarial accrued liability for OPEB is solely attributable to the Health Insurance Continuation Option and at the valuation date of July 1, 2009 (the date of the most recent actuarial valuation), is estimated to be \$118,894,232 on an EAN-Service basis. Actuarial valuations for the Health Insurance Continuation Option are undertaken every two years. A new valuation study will be undertaken for reporting the OPEB liability as of July 1, 2011.

For FY 2010-11, the annual required contribution (the "ARC") of the employer to be recognized as the annual employer OPEB cost is estimated to be \$13,442,894 on an EAN-Service basis. For fiscal year ended June 30, 2011, the City benefits paid on behalf of retirees exceeded the premiums they paid by \$7,800,959. The City has elected to not pre-fund the FY 2010-11 employer's annual required contribution to the plan (ARC) of \$13,442,894. The amount unfunded in FY 2010-11 is

\$28,721,772, which is the OPEB obligation from the beginning of the fiscal year, plus the ARC for FY 2010-11, less payments made in relation to the FY 2010-11 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.



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**APPENDIX E**  
**CONSULTANT REPORT —**  
**PROJECTIONS OF DIVIDE THE TAXES REVENUES**

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# River District Urban Renewal Area

## Divide the Taxes Revenue Projections

Prepared for the Office of Management and  
Finance, City of Portland

**ECONorthwest**  
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May 2012

# Preface

This report is an attachment to the Official Statement of the City of Portland, Oregon prepared in connection with the issuance of urban renewal and redevelopment bonds for the River District Urban Renewal Area (hereafter, the “Area”). ECONorthwest completed this project for the Portland Development Commission. Abe Farkas was project director. Nick Popenuk was project manager, and conducted most of the research and analysis. Whit Perkins and Rob Wyman provided research assistance.

ECONorthwest gratefully acknowledges the substantial assistance provided by staff at Multnomah County Division of Assessment, Recording, and Taxation, and at the City of Portland Office of Management and Finance. Several other firms, agencies, and staff contributed to other research that this report relied on.

Although ECONorthwest worked collaboratively with the City of Portland and Portland Development Commission on this analysis, the financial forecasts were conducted independently by ECONorthwest, and reviewed by the City of Portland. All assumptions used in the analysis were developed by ECONorthwest, except for assumptions on which local option levies will be renewed and extended, and which will expire in future years. These assumptions were provided by the City of Portland. Despite all the assistance, ECONorthwest alone is responsible for the report's contents.

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## Summary of results

ECONorthwest conducted a feasibility study to assess the potential of the River District Urban Renewal Area (the “Area”) to collect Divide the Taxes Revenues, which are the property tax revenues generated within an urban renewal area that are available to an urban renewal agency for reinvestment. This analysis forecasts the amount of Divide the Taxes Revenues that will be generated in the Area over the next five fiscal years beginning in 2012-13.

The purpose of our analysis is to provide a short-term forecast of Divide the Taxes Revenues of the Area. At the heart of this analysis is a forecast of future growth in assessed value. We determine our future growth assumptions based on forecasts of real market value trends for specific property types (e.g., single-family residential, commercial, etc.) for the Area. For these forecasts of growth in property values, we rely on the expert opinions of our senior staff and market analysis conducted by Integra Realty Resources. Our analysis also includes interviews with property owners and Portland Development Commission staff to identify known projects that are likely to develop during the five-year period.

Our approach to the analysis is to produce realistic but conservative estimates, based on well-researched assumptions. Because our assumptions are conservative, it is possible that the Area will generate more Divide the Taxes Revenues than we project. The City’s practice is to issue debt secured by Divide the Taxes Revenues using a level debt service amortization schedule that is based only on revenue collections in the year the bonds are issued. The City does not rely on future growth in the Divide the Taxes Revenues to pay debt service. Any increase in the projected Divide the Taxes Revenues would provide an additional cushion to ensure debt service can be paid in the event of unanticipated losses of incremental assessed value, higher delinquencies, or other factors.

In FY 2011-12 the Area was eligible to collect \$31,571,279 in Divide the Taxes Revenues. We expect a modest decline in Divide the Taxes Revenues next year, followed by limited growth in Divide the Taxes Revenues over the next four years.

In 2009, the Oregon Legislature enacted HB 3056, which, among other things, established a system of revenue sharing for urban renewal areas. These revenue sharing provisions only apply to urban renewal areas approved after 2009, older urban renewal areas that have been amended to

increase maximum indebtedness since 2009, and the River District, which was specifically identified in the legislation. When urban renewal areas attain certain thresholds of annual tax revenue, some of this tax revenue is released from the urban renewal area and shared with the other taxing districts. The River District is the only urban renewal area in the City of Portland that is currently sharing revenues with overlapping taxing districts.

In the Area, revenue sharing occurs when tax revenues generated on the incremental assessed value of the Area exceeds the amount from FY 2009-10. PDC receives tax revenues equal to FY 2009-10, plus 75% of the excess amount. The remaining tax revenue is shared with other taxing districts. When tax revenues reach 10% of the Area's maximum indebtedness, then the amount going to the Area will be capped at that level (\$48.95 million per year), and all additional tax revenue will be shared with other taxing districts.

Exhibit 1 summarizes the results of our analysis. ECONorthwest projects assessed value in the Area to experience modest growth from \$2,105,281,815 in FY 2012-13 to \$2,379,516,335 in FY 2016-17, an average annual growth rate of 3.1%. Incremental assessed value is projected to increase at an average annual rate of 3.9%. ECONorthwest projects that Area Divide the Taxes Revenues will experience slower growth over the same period, with \$28,743,144 in FY 2012-13, and \$33,277,550 in FY 2016-17, an average annual growth rate of 3.7%. The Divide the Taxes Revenue grows slower than incremental assessed value because an increasing amount of tax revenue generated on the incremental assessed value of the Area will be shared with overlapping taxing districts.

**Exhibit 1. River District Urban Renewal Area  
Projected Divide the Taxes Revenues  
FY 2012-13 to FY 2016-17**

	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Total Assessed Value	\$ 2,105,281,815	\$ 2,145,634,013	\$ 2,188,793,160	\$ 2,327,623,481	\$ 2,379,516,335
Frozen Base	\$ 461,577,974	\$ 461,577,974	\$ 461,577,974	\$ 461,577,974	\$ 461,577,974
Incremental Assessed Value	\$ 1,643,703,841	\$ 1,684,056,039	\$ 1,727,215,186	\$ 1,866,045,507	\$ 1,917,938,361
Consolidate Tax Rate	\$ 22.0877	\$ 22.1861	\$ 21.7194	\$ 21.6518	\$ 21.6318
Taxes on Increment	\$ 36,305,637	\$ 37,362,635	\$ 37,514,077	\$ 40,403,244	\$ 41,488,459
Revenue Sharing Amount	\$ (2,883,373)	\$ (1,762,178)	\$ (1,800,050)	\$ (2,522,317)	\$ (2,793,633)
Taxes to be Raised	\$ 33,422,261	\$ 35,600,458	\$ 35,714,028	\$ 37,880,927	\$ 38,694,826
Compression Loss	\$ (4,679,117)	\$ (4,984,064)	\$ (4,999,964)	\$ (5,303,330)	\$ (5,417,276)
Compression Loss Percent	-14.0%	-14.0%	-14.0%	-14.0%	-14.0%
<b>Taxes Imposed</b>	<b>\$ 28,743,144</b>	<b>\$ 30,616,394</b>	<b>\$ 30,714,064</b>	<b>\$ 32,577,597</b>	<b>\$ 33,277,550</b>

Source: ECONorthwest, 2012

## 2.1 HOW URBAN RENEWAL WORKS

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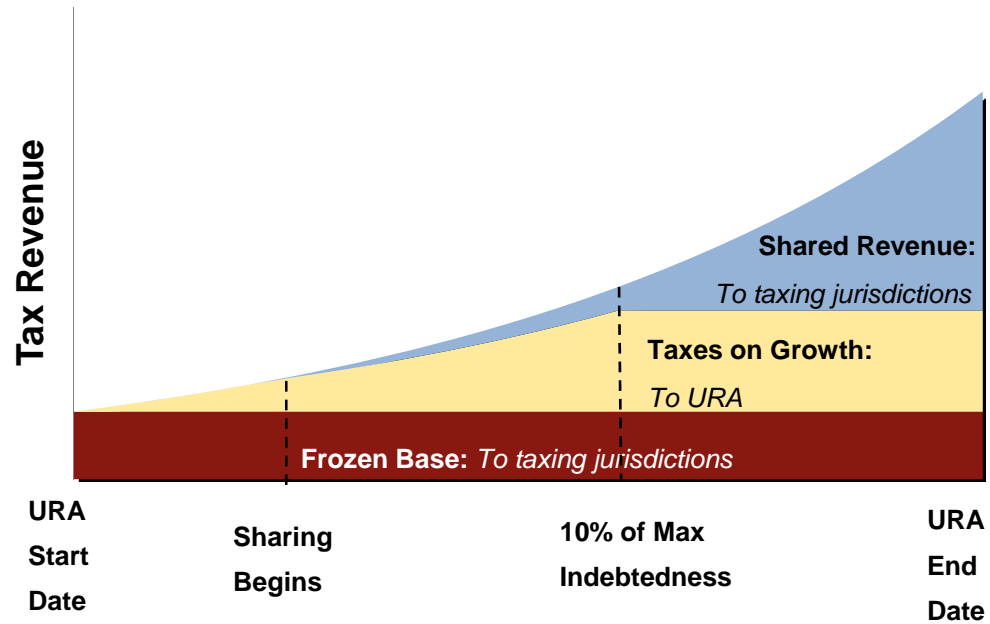
Urban renewal is a program used by over 50 cities and counties in Oregon to help them implement adopted plans to revitalize specified areas within their jurisdiction. Urban renewal, through the provision of tax increment financing (TIF), can provide for capital improvements such as parks, streets, parking garages, and transit systems that stimulate private investment and attract new businesses, jobs, and residents. It can also be used to assist with private development activities that are approved in an urban renewal plan, such as financing for affordable housing or mixed-use, transit-oriented development.

Tax increment financing is the primary finance vehicle used within urban renewal areas. Divide the Taxes Revenues are generated when a designated urban renewal area is established and the assessed value of all property in the area is 'frozen' (called the *frozen base*). Over time, the total assessed value in the area increases above the frozen base, from appreciation of existing property and from new taxable investment. The assessed value in the area above the frozen base is called the *incremental assessed value*.

The taxing jurisdictions that overlap the urban renewal area continue to collect tax revenue from the frozen base, but tax revenue generated from the incremental assessed value goes to the urban renewal area. The urban renewal area can then issue long-term bonds and other forms of debt (such as lines of credit) to pay for identified public improvements and/or investments in private projects that are in the public interest. The Divide the Taxes Revenues are used to repay this indebtedness.

Some urban renewal areas (including the Area) are subject to revenue sharing, which allocates some of the tax revenue generated on the incremental assessed value to the overlapping taxing jurisdictions (as shown in Exhibit 2). Revenue sharing is explained in greater detail in Section 3.3.

# Exhibit 2: Tax Increment Illustration



Source: ECONorthwest

In Oregon, planning and analysis associated with the creation of new urban renewal areas is guided by state statute (ORS Chapter 457). State statutes stipulate that urban renewal area plans must find that the proposed urban renewal area is eligible for urban renewal because of existing blight, typified by conditions such as deteriorated buildings, low improvement to land value ratios, and/or lack of adequate infrastructure. The plan must also contain goals and objectives, authorized urban renewal projects, a limit on the total indebtedness, specific provisions regarding acquisition and disposition of land, and provisions regarding how the plan may be amended in the future.

As of April 1, 2012, there were 11 active urban renewal areas in the City of Portland. The plan areas vary considerably in size and assessed value. As of July 1, 2011, the size of the 11 plan areas totals 13.3% of the total land area of the City and the frozen value is 9.8% of the assessed value of the City. State statutes specify that no more than 15% of a City's total assessed value and land area can be in plan areas. Division of tax calculations for these 11 urban renewal areas affect 14 taxing districts.<sup>1</sup> In April 2012, the Portland City Council approved the creation of six small urban renewal areas on Portland's eastside and in May 2012, the City Council approved a new urban renewal area in the vicinity of the Portland State University.

<sup>1</sup> Tax Supervising and Conservation Commission Annual Report, 2010-11.

These new urban renewal areas are expected to begin collecting tax increment revenues in FY 2013-14.

Oregon state statutes pertaining to urban renewal provide for several different types of urban renewal plans, depending on the date on which the district was formed or amended. The City has three types of urban renewal plans, including “Option 3” plans, “standard rate” plans, and “reduced rate” plans.

- Option 3 plans must have been formed or amended prior to December 6, 1996. These urban renewal areas may collect a fixed amount of Divide the Taxes Revenues and may receive an allocation of a City-wide Special Levy. The Portland City Council has currently set the Special Levy at \$15 million in total for the City’s four Option 3 plans.
- Standard Rate plans must have been formed or amended on or after December 6, 1996 but before October 6, 2001. The Area is a Standard Rate plan. The applicable tax rate used to calculate the Divide the Taxes Revenues is comprised of the permanent rates of the taxing jurisdictions overlapping the urban renewal area, the “local option” levies (e.g., the City’s Children’s Investment Fund and Multnomah County’s library local option levies), the City’s Fire and Police Disability and Retirement Fund (“FPDR”) levy, and general obligation bond levies.
- Reduced Rate plans are those formed or amended on or after October 6, 2001. The applicable tax rate for these plans is comprised of only the permanent rates of the taxing jurisdictions overlapping the urban renewal areas, the City’s FPDR levy, and “local option,” and general obligation bond levies approved prior to October 6, 2001. Local option and general obligation bond levies approved by the voters on or after October 6, 2001 are excluded from the applicable tax rate.

## **2.2 OVERVIEW: OREGON PROPERTY TAX SYSTEM**

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This section describes past ballot measures that have shaped Oregon’s property tax assessment system and impact the calculations of Divide the Taxes Revenues in this report. We also describe the four types of property in the State, and the specific methods for assessing the value of these property types.



## 2.2.1

## PROPERTY TAX BALLOT MEASURES<sup>2</sup>

Citizen initiatives have changed the way that property taxes are raised in Oregon, and have limited the growth of assessed value and property tax revenues for taxing jurisdictions. Measure 5, passed in 1990, introduced tax rate limits. Measure 50 passed in 1996, cut taxes, introduced assessed value growth limits, and replaced most dollar-limited *levies* (an amount) with permanent tax *rate limits*.

Measure 5 introduced limits on the taxes paid by individual properties. It imposed limits of \$5 per \$1,000 of real market value for school taxes and \$10 per \$1,000 of real market value for general government taxes. These limits apply to all property taxes, other than those levied to repay voter-approved general obligation bonds.

The objective of Measure 50 was to reduce property taxes and to control their future growth. To do so, it made three fundamental changes. It:

- Switched to permanent property tax rate limits
- Reduced assessed values
- Limited annual growth of assessed value

Under Measure 50, most levies were replaced by permanent limits on tax rates. The permanent rate limit is fixed, and does not change from year to year. Taxes levied under the permanent rate limits, typically referred to as operating taxes, are used primarily to fund the general operating budgets of the taxing districts. In addition to the permanent rate, taxing districts may impose general obligation bond levies and local option levies. The City of Portland also has the ability to levy for its FPDR Plan, which is in addition to its permanent rate. The sum of all the tax rates (including permanent rates, local option levy rates, and rates for bonds and other levies) of all taxing districts in a given levy code area is known as the *consolidated tax rate*.

Measure 50 changed the concepts of “assessed values” and “tax rates.” Assessed value no longer equals real market value. Real market value is the sale price for property that changes hands between a willing seller and a willing buyer in the open market. Assessed value is the value assigned to that property for tax purposes. For 1997-98, a “maximum assessed value” was established for every property by reducing the value to 90% of its 1995-

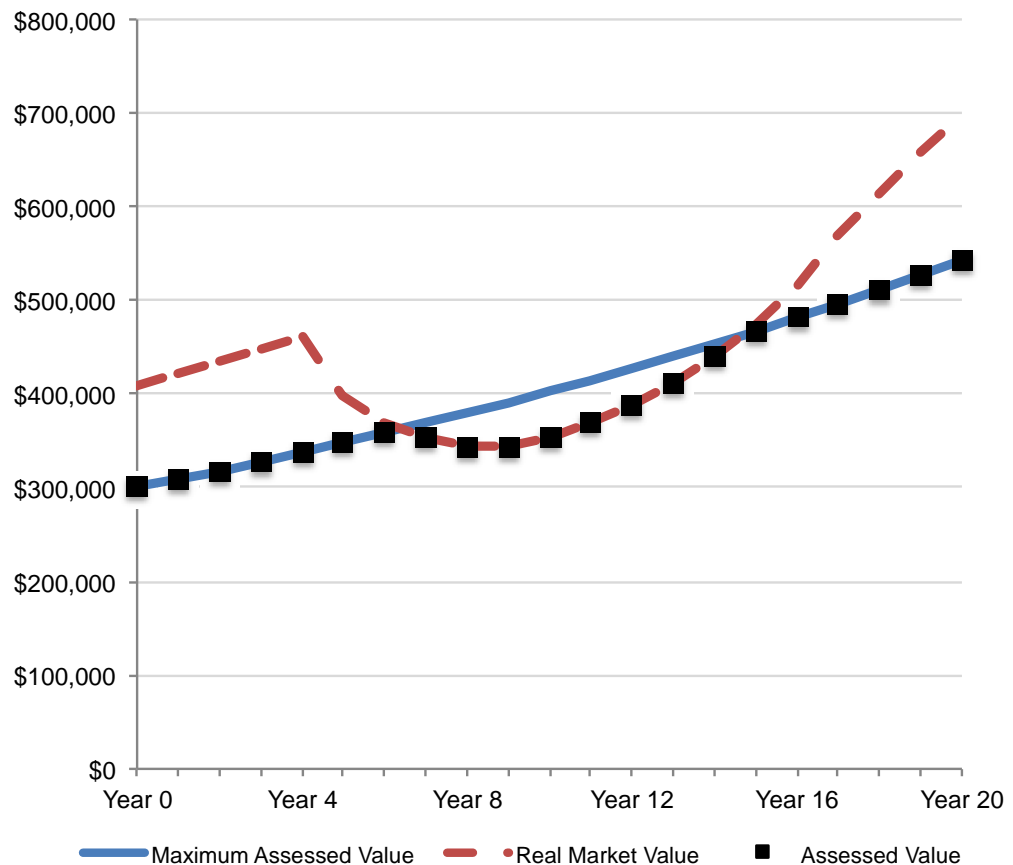
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<sup>2</sup> Most of this discussion is based on Appendix B in *Oregon Property Tax Statistics, Fiscal Year 2002-03*, prepared by the Research Section of the Oregon Department of Revenue.

96 real market value. Growth in maximum assessed value for existing properties is limited to 3% per year. Measure 50 also stipulates that assessed value may not exceed real market value. If the real market value of a property falls below its maximum assessed value, the assessed value will be set at the real market value.

Exhibit 3 shows the relationship between maximum assessed value, real market value and assessed value for a hypothetical property. In this example, the property begins with maximum assessed value below real market value, and the assessed value is set at the lower of the two values. The maximum assessed value continues to grow at 3% per year, as limited by the State Constitution, which means assessed value growth is effectively limited to the same 3% annual growth during this time. In this hypothetical example, real market value drops below maximum assessed value at one point, which causes a corresponding drop in assessed value. As real market value recovers over time (growing faster than 3% per year), the assessed value also grows at a rate greater than 3%, until the real market value once again exceeds the maximum assessed value. At that point in time, the assessed value has caught up to the maximum assessed value, and once again is limited to 3% annual growth.

**Exhibit 3. Example of the relationship between maximum assessed value, real market value, and assessed value for a hypothetical property account**



Source: ECONorthwest

New development and substantial redevelopment of existing property are exceptions to the 3% limit on maximum assessed value growth (referred to as “exception value” later in this report).<sup>3</sup> For these exceptions, maximum assessed value is calculated based on a changed property ratio (CPR). Each county calculates CPRs each year for each unique property class (e.g., residential, multi-family, industrial, commercial, etc.). The CPR is determined by the ratio of assessed value to real market value for similar property in that county.

For new development, the CPR is multiplied by that property’s real market value to determine its initial maximum assessed value. For example,

<sup>3</sup> Other exceptions include: partitioning or subdividing a property, rezoning a property and change of use consistent with that zone, and the disqualification or termination of property tax exemptions (e.g., property transferring from public to private ownership).

if the CPR for residential property in Multnomah County is 0.5, then the maximum assessed value for a new house would initially be set at 50% of its real market value. In all future years, the same Measure 50 limits apply for calculating change in maximum assessed value (i.e., no more than 3% growth per year).

One important implication of the combination of the CPR and Measure 50 limits to growth of assessed value is that the future stream of revenue from existing properties is relatively stable and straightforward to project. Because maximum assessed value can only grow at 3%, and historically, real market value growth has exceeded 3%, there is room for assessed value to continue to grow, even in a market where real market value growth slows or declines.

## 2.2.2

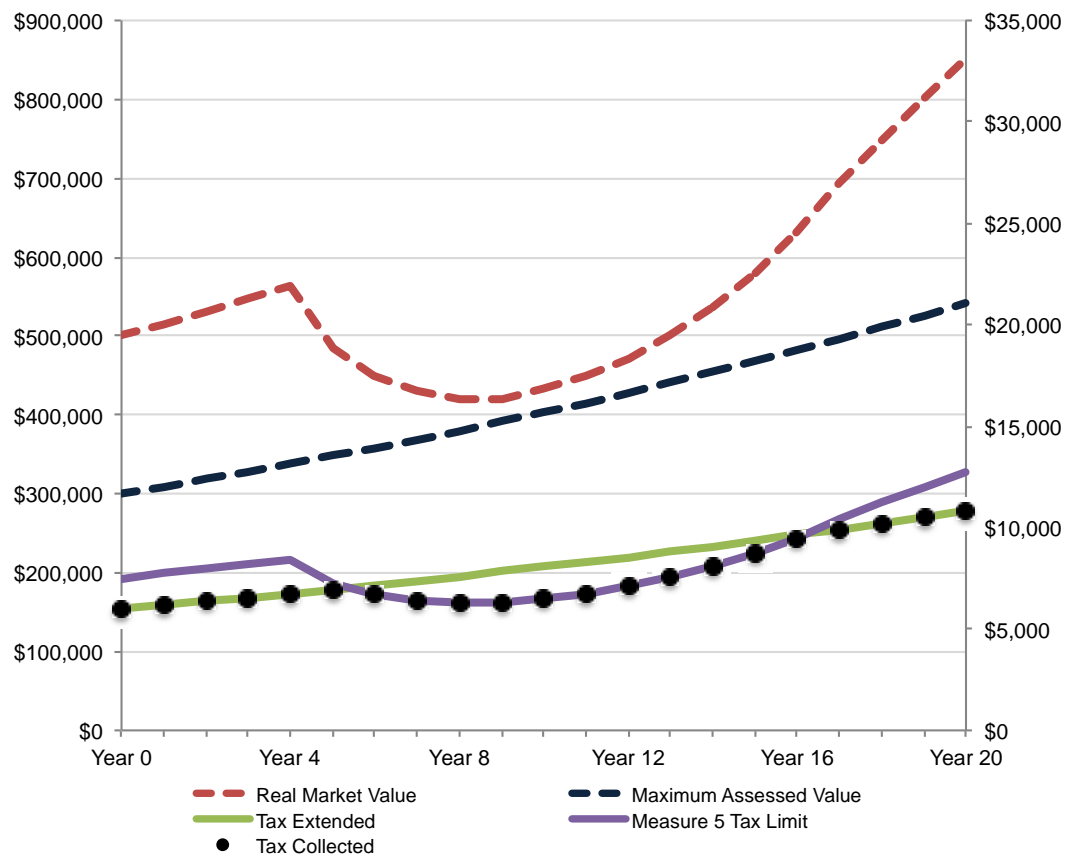
## MEASURE 5 COMPRESSION

Projections of Divide the Taxes Revenues must account for compression, which occurs as a result of the rate limits enacted by Measure 5. These rate limits apply to the *real market value* of properties, rather than to the assessed value. If taxes to be raised on an individual property exceed the Measure 5 limits (\$5 per \$1,000 for education, or \$10 per \$1,000 for general government), then the tax bill for that property is reduced or “compressed.” Compression loss means some properties pay less in taxes than are calculated by the product of the assessed value and consolidated tax rate.

Property owners are taxed on the combined rates of general government, education, and debt service for all overlapping governments that provide services to that property. In most cases, the taxes to be raised from an individual property are calculated as the consolidated tax rate multiplied by the assessed value. When the taxes to be raised using this methodology exceed the Measure 5 limits on real market value, the assessor must reduce the taxes to be raised until they equal the legal limits.

Exhibit 4 shows the effects of compression on a hypothetical property. The chart shows the maximum assessed value and real market value changing over time. The maximum assessed value is limited to 3% growth per year, and taxes to be raised on the property is calculated on that value and the tax rate. However, when the real market value declines, the Measure 5 tax limit also declines. When the Measure 5 limit drops below the taxes to be raised, then less taxes are collected. The difference in the taxes to be raised and the taxes “imposed” (i.e., the amount of taxes legally available for collection) is compression loss.

#### Exhibit 4. Example of Measure 5 compression losses for a hypothetical property account



Source: ECONorthwest

The components of the consolidated tax rate are not all compressed proportionately, but rather by a specific order of operations. Local option levies are compressed first. If all local option levies are reduced to zero, and the taxes still exceed the Measure 5 limits, then the revenues from the permanent tax rates and the FPDR levy are reduced proportionally, until the taxes imposed are within the Measure 5 limits. This protects all districts' permanent rate levies from being reduced if another district passes a local option levy.

At least two factors may cause compression rates to increase. First, because compression is calculated based on real market value, depressed real estate markets may result in more properties experiencing property tax compression.

Second, the passage of new levies can increase the consolidated tax rate. Taxes collected for urban renewal fall within the general government category for computing Measure 5 compression. Because urban renewal levies are assessed taxing-district wide (rather than just within urban

renewal areas), compression that occurs anywhere in a taxing district will affect urban renewal Divide the Taxes Revenues. The reduction in the urban renewal levy on the compressed property will reduce the amount of revenue that the individual property generates for the urban renewal area, causing the total amount of revenue generated for the urban renewal area to be less than would have been anticipated based on the incremental value.

## **2.2.3 PROPERTY TYPES**

In Oregon, taxes are assessed differently on each of four categories of properties: real property, personal property, manufactured homes, and utilities. County assessors appraise most property in Oregon, though the State Department of Revenue appraises certain large industrial sites, and utility properties. The method of assessment used is an important methodological consideration for the projections in this report.

### **Real property**

Real property generally includes land and all improvements on land that are non-exempt and are not included in the other categories. Real property is taxed on its assessed value. Change in assessed value comes from four sources: (1) appreciation/depreciation of existing property, (2) expiration or imposition of tax abatements (e.g., transferring use or ownership from a public to a private entity), (3) exception value from new development or substantial redevelopment, and (4) a significant change of use in accordance with change in land use designation (e.g. rezoning land from industrial to residential or commercial).

### **Personal property**

Taxable personal property includes “machinery, equipment, furniture, etc., used previously or presently in a business, including any property not currently being used, placed in storage, or held for sale.”<sup>4</sup> Examples include air conditioning units, retail fixtures, laser equipment, juke boxes, professional printing equipment, computers, and road construction equipment.

Personal property is assessed at 100% of an adjusted market value. The market value is adjusted using an age life methodology, which depreciates the value of the property based on a schedule that is specific to the expected life of the property. The value of a computer, for example, is depreciated to

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<sup>4</sup> 2008 *Personal Property Valuation Guidelines*, Oregon Department of Revenue, publication 150-303-441. For those interested in a more detailed description of the methodology for assessing personal property, we recommend this document.

\$0 in three years, while the value of a set of tools may depreciate to \$0 in 15 years.

Even though individual items categorized as personal property are constantly depreciating and the taxes collected on it drop correspondingly, on average across all businesses in a jurisdiction, personal property is usually replaced at a rate that maintains or increases its total assessed value relative to the total amount of assessed value from all categories of property taxes.

## **Manufactured homes**

Manufactured homes are assessed separately from other types of real residential properties (including the land that they sit on), but using a similar methodology. A manufactured home's assessed value is the lower of its real market value or its maximum assessed value. For new manufactured homes, the residential CPR is applied in the first assessment year, but the home is not assumed to increase in market value in subsequent years, as is the case with other types of residential development.

Because the real market value of manufactured homes are constantly depreciating, the real market value usually drops below the maximum assessed value at some point in the manufactured home's life, and the tax revenues for these properties decline over time.

## **Utility property**

Utility properties include privately-owned railroads, water transportation, communications, airlines, gas companies, pipelines, private railcars and electric companies. These companies are assessed annually at the State level by the Department of Revenue, as prescribed in ORS 308.505-665. Each utility company files an annual report; the Department of Revenue determines the total value on a unitary basis. The Department then determines the portion of that value that is attributable to Oregon. Of the portion that is in Oregon, the State apportions the assessed value to *code areas*, which equate to taxing districts. Tax rates are applied to the apportioned value to determine the property tax for the company in each taxing district.

## 2.3

# ASSESSED AND REAL MARKET VALUE TRENDS IN THE RIVER DISTRICT URBAN RENEWAL AREA

The “River District” is the area of Portland’s Central City generally north of the central business district and east of I-405, an area defined by its strong orientation to the Willamette River. The River District Urban Renewal Area includes a portion of the River District as well as a 31.82 acre area south of Burnside Street. The River District is bounded generally by Burnside Street on the south, Interstate 405 and the main freight rail lines on the west, the northern end of the Port of Portland’s Terminal One on the north and the Willamette River on the east. The Area incorporates sections of Old Town/Chinatown, which was formerly in the Downtown Waterfront Urban Renewal Area.

Exhibit 5 summarizes the historical growth in assessed value and real market value in the River District Urban Renewal Area from FY 2007-08 to FY 2011-12.

**Exhibit 5. River District Urban Renewal Area**  
**Assessed value and real market value by property type**  
**FY 2007-08 to FY 2011-12**

	2007-08	2008-09	2009-10	2010-11	2011-12
<b>Assessed Value</b>					
Real	\$ 1,047,213,740	\$ 1,201,930,650	\$ 1,461,228,590	\$ 1,614,540,500	\$1,711,620,950
Personal	\$ 108,057,594	\$ 115,825,827	\$ 123,232,544	\$ 133,077,953	\$ 127,457,115
Utility	\$ 195,162,212	\$ 218,698,250	\$ 185,709,548	\$ 202,554,400	\$ 225,300,000
Manufactured	\$ -	\$ -	\$ -	\$ -	\$ 7,590
<b>Total</b>	<b>\$ 1,350,433,546</b>	<b>\$ 1,536,454,727</b>	<b>\$ 1,770,170,682</b>	<b>\$ 1,950,172,853</b>	<b>\$2,064,385,655</b>
<b>Real Market Value</b>					
Real	\$ 3,118,587,630	\$ 3,621,184,220	\$ 3,851,910,390	\$ 4,126,446,560	\$3,982,048,550
Personal	\$ 108,591,138	\$ 116,516,221	\$ 123,844,933	\$ 134,756,495	\$ 129,196,644
Utility	\$ 195,606,877	\$ 229,097,718	\$ 185,722,825	\$ 203,113,795	\$ 227,313,038
Manufactured	\$ -	\$ -	\$ -	\$ 9,000	\$ 8,010
<b>Total</b>	<b>\$ 3,422,785,645</b>	<b>\$ 3,966,798,159</b>	<b>\$ 4,161,478,148</b>	<b>\$ 4,464,325,850</b>	<b>\$4,338,566,242</b>

Source: Calculations by ECONorthwest, 2012, based on data provided by the Multnomah County Assessor’s Office for FY 2007-08 to 2011-12. Values exclude manufactured property.

Real property constitutes the vast majority of assessed value in the Area. Every year, the Multnomah County Assessor’s Office adjusts the real market value of real property. The Assessor uses a mass appraisal system, as opposed to an appraisal of individual properties. In this mass appraisal system, the Assessor divides real property into three categories: residential, multi-family residential, and commercial, and considers these categories at



the neighborhood level. The Assessor's Office relies on market data and appraisal information on a subset of properties within each neighborhood to identify trends in real market value.

Based on this information, the Assessor's Office makes annual adjustments to real market value for all property of the same use in the same neighborhood. These adjustments are usually uniform for all properties, unless there are extenuating circumstances, or observed trends within different sub-types of properties. This means that even if individual properties are experiencing abnormal growth or decline in real market value, the Assessor will most likely set the real market value based on prevailing neighborhood trends. This system means that it is less likely that individual properties will experience dramatic swings in real market value relative to the property class as a whole.

Exhibit 6 shows the ratio of assessed value to real market value (AV/RMV ratio) for all property in the Area. Approximately two-thirds of properties in the Area have assessed values at less than 80% of real market values. For these properties, there is a sizable "cushion" between real market values and assessed values that can reduce the impacts of real market value declines on property tax revenues. The assessed value of these properties is more likely to appreciate at the 3% annual rate allowed by the State Constitution.

**Exhibit 6. River District Urban Renewal Area  
Assessed Value by AV/RMV ratio tiers, all property types  
FY 2011-12**

<b>AV/RMV Ratio</b>	<b>Assessed Value</b>	<b>Percent</b>	<b>Cumulative Percent</b>
0-29%	\$ 82,310,560	4%	4%
30-39%	\$ 115,305,410	6%	10%
40-49%	\$ 379,013,930	18%	28%
50-59%	\$ 224,266,820	11%	39%
60-69%	\$ 93,929,450	5%	43%
70-79%	\$ 446,639,820	22%	65%
80-89%	\$ 302,305,270	15%	80%
90-99%	\$ 42,074,150	2%	82%
100%	\$ 378,540,245	18%	100%
<b>Total</b>	<b>\$ 2,064,385,655</b>	<b>100%</b>	<b>100%</b>

Source: ECONorthwest, 2012

Exhibit 6 shows 18% of properties in the Area have assessed value equal to their real market values, and an additional 17% of properties have

assessed values between 80% and 99% of their real market values.<sup>5</sup> Much of the property with high AV/RMV ratios is personal and utility property. The severity of the current downturn in the real estate market means it is very likely that some property in the Area will experience declines in real market value in the coming years. Assessed value growth for these properties will be more dependent on trends in real market value. By the end of the forecast period, it is likely that the Area will see a larger percentage of its assessed value in the higher AV/RMV ratio brackets shown in Exhibit 6.

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<sup>5</sup> Data provided by the Multnomah County Assessor's Office is for Measure 5 value and Measure 50 value. Measure 50 value is equal to a property's assessed value, whereas Measure 5 value is generally equal to real market value, with adjustments for specially assessed properties and exemptions.

# Methods, Assumptions, & Projections

The Divide the Taxes Revenues for the Area are calculated as follows:

$$\text{Divide the Taxes Revenues} = \text{Incremental assessed value} \times \text{consolidated tax rate} - \text{revenue sharing} - \text{compression losses}$$

This section describes the four steps for estimating the Divide the Taxes Revenues, including the methods and underlying assumptions used in the analysis. It is organized by the four steps of the methodology outlined above, which are:

1. Calculate the incremental assessed value
2. Determine the consolidated tax rate
3. Calculate revenue sharing
4. Forecast compression losses

## 3.1 STEP ONE: CALCULATE THE INCREMENTAL ASSESSED VALUE

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To determine the growth in incremental assessed value, we forecast the growth in assessed value for each property type. These forecasts are based on assumptions of future growth rates based on historical trends, and consideration of current and likely future market conditions. This section describes our assumptions for growth in assessed value, and our calculations of incremental assessed value.

### 3.1.1 ASSUMPTIONS FOR REAL MARKET AND ASSESSED VALUE GROWTH

We forecast the growth in incremental assessed value for the three property types (real, personal, and utility) present in the Area. These forecasts were based on historical data, as well as projected future development activity. The Multnomah County Assessor's Office provided historical data on the real market value and assessed value of all property accounts within the Area from FY 2007-08 to FY 2011-12.

We forecast growth in both real market value and maximum assessed value for each property account in the Area. The lesser of these values is the assessed value used to calculate Divide the Taxes Revenues. Maximum

assessed value growth is limited by the State Constitution to an increase of 3% per year (not counting exception value).

Projections of real market values require assumptions and projections regarding how market trends will vary over time. Exhibit 7 summarizes our overall assumptions for real market value growth by property type. The text that follows provides a more detailed description of the reason for selecting each assumption.

**Exhibit 7. River District Urban Renewal Area  
Summary of real market value growth assumptions**

Year	Property Type			
	Real	Personal	Utility	Manu- factured
Actual				
2007-08	22.9%	2.3%	-21.4%	0.0%
2008-09	16.1%	7.3%	17.1%	0.0%
2009-10	6.4%	6.3%	-18.9%	0.0%
2010-11	7.1%	8.8%	9.4%	100.0%
2011-12	-3.5%	-4.1%	11.9%	-11.0%
Projected				
2012-13	-2.7%	0.0%	-3.0%	0.0%
2013-14	-1.4%	0.0%	-3.0%	0.0%
2014-15	0.3%	0.0%	-3.0%	0.0%
2015-16	2.0%	0.0%	-3.0%	0.0%
2016-17	2.3%	0.0%	-3.0%	0.0%

Source: ECONorthwest, 2012, based on data from the Multnomah County Assessors Office, FY 2011-12.

## Methods for forecasting real property assessed values

In FY 2011-12, real property constituted 83% of total assessed value in the Area. For this property type, we project changes in assessed value that result from appreciation as well as exceptions (i.e., new taxable development or expiration of property tax abatements).

Exhibit 8 shows the composition of real property in the Area by use (i.e., residential, commercial, industrial, multi-family, and other). Commercial property constitutes just over half of the acreage in the Area, but just over a third of the assessed value. Condominiums constitute the largest share of the Area's assessed value at 53%. Many of the multifamily residential properties in the Area have property tax exemptions, so Exhibit 8 understates the presence of this property type in the Area. Twenty percent of the land is vacant, providing significant opportunities for future redevelopment when market conditions improve.<sup>6</sup> Of the vacant land,

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<sup>6</sup> Note, the figures in Exhibit 8 are for parcels in the Area, and exclude public rights of way. In other words, these figures omit the acreage of roads, bridges, and freeways in the area, as well as the

almost three-quarters of the total assessed value is associated with commercial land use; multi-family residential land use makes up just over a quarter of the total assessed value.

**Exhibit 8. River District Urban Renewal Area**  
**Assessed value of real property by use, FY 2011-12**

Land Use	Acres		Tax Records		Assessed Value	
	Number	Percent	Number	Percent	Number	Percent
Condominium	29.9	13.5%	8,304	93.5%	\$ 912,315,570	53.3%
Commercial	127.4	57.7%	375	4.2%	\$ 605,733,900	35.4%
Multi-family residential	12.0	5.4%	29	0.3%	\$ 123,142,720	7.2%
Vacant	41.5	18.8%	111	1.3%	\$ 33,149,430	1.9%
Single-family residential	1.3	0.6%	35	0.4%	\$ 15,884,320	0.9%
Industrial	8.8	4.0%	25	0.3%	\$ 21,395,010	1.2%
<b>Total</b>	<b>220.8</b>	<b>100.0%</b>	<b>8,879</b>	<b>100.0%</b>	<b>\$1,711,620,950</b>	<b>100.0%</b>

Calculated by ECONorthwest with data from Metro Region Land Information System (RLIS), January 2012.

Note: Where a parcel has a split use based on tax record, the use with the highest assessed value is assigned to the parcel.

### Appreciation (or depreciation) of existing property

To determine appreciation of existing property that is already on the tax rolls, we use the lower of the real market value or the maximum assessed value. As described earlier in this report, State law limits growth in maximum assessed value to 3%. Because the real market value of almost all real property is significantly more than the maximum assessed value, the assessed value of most property has historically appreciated at 3% per year. Current market conditions, especially for condominiums, warrant a closer look at appreciation for existing property.

In 2011, Integra Realty Resources conducted a study of the condominium and multifamily residential market in the River District. In 2012, Integra updated this report based on currently available market data available. The purpose of the Real Estate Consulting Report was to provide a five-year forecast of price trends for these property types in Portland's urban core in general, with a focus on the Area. The study focused on condominiums and multifamily residential, since they are the prevalent property types in the area, and have been affected differently by the recent recession. Key findings of the 2012 update include:

- Though Portland has stopped shedding jobs, the most conservative assumption is that it will take at least one or two more years of

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portion of the Area that extends into the Willamette River, but is not included in a parcel in the Multnomah County Assessor's database.

steady employment growth, combined with financing at attractive rates, before Portland's residential real estate market begins to show vitality and consistent price appreciation. In the interim, sales volumes are expected to remain low, with prices in some submarkets and some property niches continuing to settle downwards.

- The primary issues for the high-rise condominium market are oversupply, product stigma, and pricing approximating costs. Simply put, too many high-priced condominium units were constructed between 2005 and 2008, more than were warranted by the real demand for the product, irrespective of macro-economic conditions.
- The condominiums in the Area have been less impacted by the recession and the collapse of the housing bubble than other areas in Portland's urban core, because of the rich and extensive mix of retail, service, and eating, drinking and entertainment establishments enjoyed by Area residents.
- The outlook for condominium values is one of modest declines in calendar year 2012, before stabilizing in calendar year 2013. Declines approximating 2% during 2012 would not be surprising. The condominium market should begin to gain traction once employment and single-family housing recovers. Thereafter, appreciation should mirror general inflation.
- The existing mid- and high-rise apartment buildings in the River District and in the downtown core have enjoyed generally strong occupancy levels at rental rates, which, though competitive, are insufficient to support new construction in the current development climate.
- Multi-family values are expected to increase 4% to 5% during 2012, and level off to 2% in 2013 due to competitive new inventory coming to market. This, combined with a recovering single-family market, should moderate rental rate increases, and values should mirror the rate of inflation beginning 2014 through the remainder of the forecast period.
- The outlook for office values is one of modest declines in calendar year 2012, before stabilizing in calendar year 2013. The office market should begin to gain traction and approximate general inflation, once employment and natural job growth recovers. Even though the market is somewhat tight with regard to good-quality, available Class A, and to a lesser degree Class B and C product, there is enough planned and under renovation project (the Yeon Bldg., Oregon Pioneer, Park Avenue West) that supply and demand will

remain in balance for some time, with no strong upward pressure on rents. As such, properties' net operating income are anticipated to grow very slowly over the next five years, with valuation differential impacted more by changes in required rates of return, which in turn are more influenced by macro rather than local economic events.

- Currently, retail vacancy in the Area is somewhat persistent, as evidenced by the very slow lease up of space at the Broadstone Enso apartment project, as well as the new GSA office building located at NW 14<sup>th</sup> and Overton (this space has been available for lease for over a year), and The Lovejoy. Rental rates in the Area are flat, with concessions equating to approximately one to three months free (depending on the length of the lease). General lease rates range between \$20 and \$28 per sq. ft., with some spaces higher. Retail values will remain flat over the next 24 months, and will begin to increase slowly thereafter (2% to 2.5% per annum), as the remainder of the excess retail space is absorbed.

Based on the Integra Realty Resources market study, ECONorthwest developed real market value growth rate assumptions for condominiums, multifamily residential, and commercial property.<sup>7</sup> These growth rates exclude any exception value that will be added to the tax rolls in future years. Exhibit 9 shows the assumed growth rates in real market value for real property classes based on market trends, excluding effects due to appeals and new value added. It is important to note the distinction between calendar year and fiscal year, as there is a lag time between when changes in value occur in the market, and when those changes impact the tax rolls. For example, Exhibit 9 shows that market changes for 2011, which have already occurred, are not yet reflected in the tax rolls. All changes in value from January 1, 2011 to January 1, 2012 will impact the tax rolls in FY 2012-13.

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<sup>7</sup> Other property classes (e.g., industrial, single-family residential, vacant, etc.) constitute about 4% of assessed value in the area, and did not warrant detailed analysis to generate unique growth assumptions. For these property classes, we combined them under the heading "other."

**Exhibit 9. River District Urban Renewal Area  
Summary of real market value growth assumptions  
for real property**

<b>Calendar Year</b>	<b>Fiscal Year</b>	<b>Condo</b>	<b>Commercial</b>	<b>Multifamily</b>	<b>Other</b>
2011	2012-13	-6.3%	-2.0%	4.5%	0.0%
2012	2013-14	-3.0%	-2.0%	4.5%	0.0%
2013	2014-15	0.0%	0.0%	2.0%	0.0%
2014	2015-16	1.5%	2.0%	3.0%	0.0%
2015	2016-17	2.5%	2.0%	3.0%	0.0%

Source: ECONorthwest 2012, based on analysis from Integra Realty Resources.

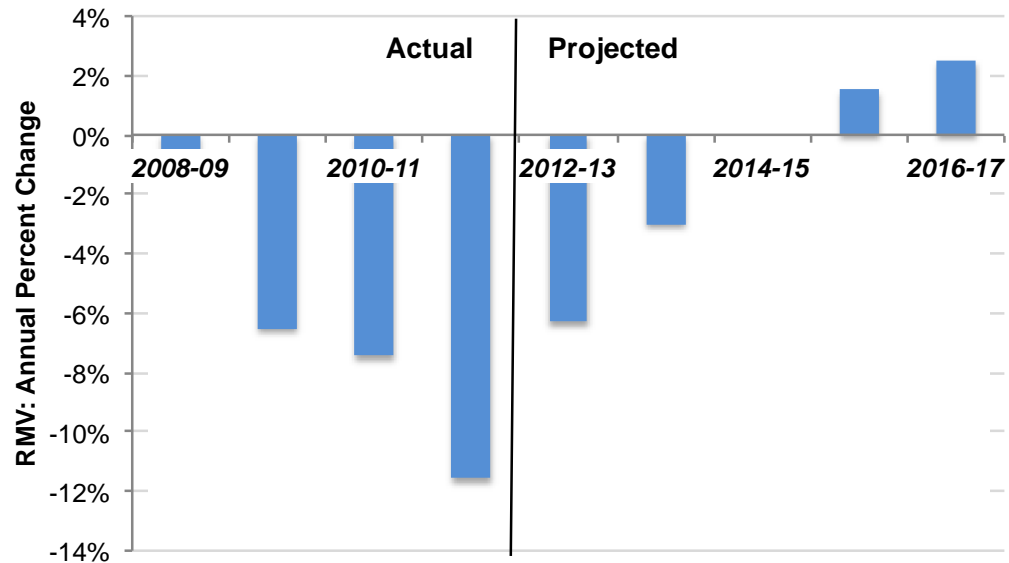
Since condominiums constitute over half of the assessed value in the Area, growth assumptions for real market value of condominiums are of greater importance to forecasts of Divide the Taxes Revenues. Exhibit 10 shows observed and projected change in the year-over-year real market value for condominium property accounts in the Area.<sup>8</sup> Recent market trends suggest that the pace of decline in the condo market is slowing, with 2011-12 marking the low point for year-over-year depreciation in real market value for condos in the Area. It is anticipated that prices will stabilize in 2013 (FY 2014-15), with positive growth finally returning in subsequent years.

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<sup>8</sup> The observed change for a given year was counted only for condo units that had real market value in the previous year. Construction of new condo units did not count towards appreciation.



**Exhibit 10. Change in real market value, condominium units, actual 2008-09 to 2011-12, projected 2012-13 to 2016-17**



Source: Historical data from Multnomah County Office of Assessment and Taxation, projected values from Integra Realty Resources, 2012.

***New development and exception value***

Recent economic conditions have significantly curtailed new real estate development, especially of the development types predominant in the Area. Conversations with local property owners and the Portland Development Commission identify no significant taxable development currently under construction in the Area. Given the two-year lag time from when new development occurs until the increase in assessed value appears on the tax rolls, we assume no growth in assessed value from new development in the Area in FY 2012-13 or FY 2013-14.

Although we do not include exception value from new development in our projections, it is still likely that some development will occur. Conversations with PDC staff suggest a high level of interest in future development when market conditions improve, and developers have more confidence that they will receive adequate return on investment. Below, we list some potential development projects in the Area that are in the planning stages include:

- Hotel – NW 9<sup>th</sup> and Marshall. Estimated investment: \$45 million.
- Hostel – 421 W Burnside. Estimated investment: \$4 million (renovation).
- The Parker (market rate apartments) – NW 12<sup>th</sup> and Quimby. Estimated investment: \$35 million

- Rich Hotel (market rate apartments) – 205 NW Couch. Estimated investment: \$2 million (renovation)

Another source of exception value is the expiration of property tax exemptions. Much property in the Area currently qualifies for tax exemptions. Some of these exemptions will be expiring over the next five years. When a property tax exemption expires, the Assessor calculates a new maximum assessed value for the property using the real market value and applicable changed property ratio.

The Integra Realty Resources Report identified all properties with property tax exemptions, and the year in which those exemptions are set to expire. Our analysis includes exception value for these properties in the applicable years. A summary of these properties and their calculated future growth in assessed value is shown in Exhibit 11. Values that are highlighted and underlined with italics indicate years when property tax exemptions expire, and new assessed value is calculated based on real market value and the changed property ratio.

**Exhibit 11. Summary of properties with expiring property tax exemptions  
FY 2012-13 to FY 2016-17**

Building Name	Street Address	Assessed Value				
		2012-13	2013-14	2014-15	2015-16	2016-17
Kearney Plaza	1102 NW Lovejoy	\$ 15,045,488	\$ 15,496,852	\$ 15,961,757	\$ 16,440,609	\$ 16,933,827
10th and Hoyt	925 NW Hoyt	\$ 208,533	\$ 214,788	\$ 221,231	<u>\$ 5,596,791</u>	\$ 5,764,694
Burlington Tower	900 NW Lovejoy	\$ 1,025,169	\$ 1,055,924	\$ 1,087,601	<u>\$ 26,073,447</u>	\$ 26,855,650
Broadstone Enzo	1400 NW Marshall	\$ 19,438,994	\$ 20,022,163	\$ 20,622,827	\$ 21,241,511	\$ 21,878,756
<b>Apartments Subtotal</b>		<b>\$ 35,718,184</b>	<b>\$ 36,789,727</b>	<b>\$ 37,893,416</b>	<b>\$ 69,352,358</b>	<b>\$ 71,432,927</b>
The Avenue Lofts	1400 NW Irving St	\$ 3,618,803	\$ 3,727,129	\$ 3,838,624	<u>\$ 26,946,185</u>	\$ 27,754,352
The Marshall Wells	1420 NW Lovejoy	\$ 2,267,992	\$ 2,335,887	\$ 2,405,766	<u>\$ 26,478,593</u>	\$ 27,272,797
<b>Condominium Subtotal</b>		<b>\$ 5,886,795</b>	<b>\$ 6,063,016</b>	<b>\$ 6,244,390</b>	<b>\$ 53,424,778</b>	<b>\$ 55,027,149</b>
<b>Total</b>		<b>\$ 41,604,979</b>	<b>\$ 42,852,743</b>	<b>\$ 44,137,806</b>	<b>\$ 122,777,136</b>	<b>\$ 126,460,076</b>

Source: Calculated by ECONorthwest, with data from Integra Realty Resources, and Multnomah County Division of Assessment and Taxation, 2012.

## Methods for forecasting personal property assessed values

In FY 2011-12, personal property in the Area constitutes 6% of total assessed value in the Area. The assessed value of personal property within the Area can vary significantly from year to year, depending upon investment decisions of businesses in the Area. Over the past five years, personal property assessed value in the Area has seen an average annual growth rate of 3.8%.

However, in most years, for most regions, investment in new equipment is more or less canceled out by depreciation of existing property. Countywide, personal property has experienced virtually no growth since

1997-98 (the year in which Measure 50 took effect), with \$2,053,477,025 in FY 1997-98 and \$2,089,271,376 in FY 2011-12, an average annual growth rate of 0.1%. For these reasons, we forecast no growth in the assessed value of personal property over the next five years.

### **Methods for forecasting manufactured assessed values**

In FY 2011-12, manufactured property in the Area constitutes less than 1% of total assessed value in the Area. The Area contains only a small amount of manufactured property (less than \$10,000 of assessed value), and we do not anticipate that new manufactured homes will be added to the housing stock of the Area.<sup>9</sup> Projections in this report hold manufactured property real market values constant.

### **Methods for forecasting utility assessed values**

In FY 2011-12, utility property constitutes 11% of total assessed value in the Area. Utility values are centrally assessed by the State Department of Revenue (DOR), and do not necessarily reflect broader economic trends. Instead, changes in assessed value for utility property depend on the specific investment patterns and financial performance of utility companies with property in the area.

In recent years, the Area has experienced unusually large annual swings in assessed value for utility property, including a 59% increase in FY 2006-07, followed by a 21% decrease in 2007-08. These changes in value tend to cancel each other out over time, and long-term trends for utility property show very modest growth. The average annual growth rate for assessed value of utility property in the Area was approximately 4% since 2007-08.

Nearly all of the utility assessed value in the Area is for telecommunications companies. About half of the assessed value in the Area is owned by AT&T. Conversations with representatives of DOR suggest no recent or anticipated actions that would cause dramatic changes in assessed value during the forecast period. To be conservative, we assumed a 3% decline in utility assessed value in each year of our forecast. Representatives of DOR concurred this assumption was reasonable and conservative.<sup>10</sup>

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<sup>9</sup> Additionally, the Oregon legislature passed House Bill 3046 in 2010 that exempts manufactured homes with assessed values of less than \$15,000 from paying taxes.

<sup>10</sup> Communication with Michael Olson, Oregon Department of Revenue, March 2012.

### 3.1.2

## PROJECTIONS OF REAL MARKET AND ASSESSED VALUE GROWTH

Exhibit 12 presents the forecast of real market value and assessed value by property type. These projections combine the assumptions described in the previous section. As can be seen from the table, real market value is projected to fall in FY 2012-13 and FY 2013-14, but recover and then experience steady growth over the remainder of the forecast period. Assessed value is expected to increase slowly during each year of the forecast period.

**Exhibit 12. Forecast growth in assessed value and real market value**

Property Type	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
<b>Assessed Value</b>					
Real	\$ 1,759,275,883	\$ 1,806,184,135	\$ 1,855,702,839	\$ 2,000,701,933	\$ 2,058,578,498
Personal	\$ 127,457,115	\$ 127,457,115	\$ 127,457,115	\$ 127,457,115	\$ 127,457,115
Utility	\$ 218,541,000	\$ 211,984,753	\$ 205,625,196	\$ 199,456,423	\$ 193,472,712
Manufactured	\$ 7,817	\$ 8,010	\$ 8,010	\$ 8,010	\$ 8,010
<b>Total</b>	<b>\$ 2,105,281,815</b>	<b>\$ 2,145,634,013</b>	<b>\$ 2,188,793,160</b>	<b>\$ 2,327,623,481</b>	<b>\$ 2,379,516,335</b>
<b>Real Market Value</b>					
Real	\$ 3,876,169,972	\$ 3,823,717,652	\$ 3,836,852,253	\$ 3,911,718,169	\$ 4,003,549,625
Personal	\$ 129,196,644	\$ 129,196,644	\$ 129,196,644	\$ 129,196,644	\$ 129,196,644
Utility	\$ 220,493,645	\$ 213,878,819	\$ 207,462,439	\$ 201,238,548	\$ 195,201,372
Manufactured	\$ 8,010	\$ 8,010	\$ 8,010	\$ 8,010	\$ 8,010
<b>Total</b>	<b>\$ 4,225,868,271</b>	<b>\$ 4,166,801,125</b>	<b>\$ 4,173,519,346</b>	<b>\$ 4,242,161,371</b>	<b>\$ 4,327,955,651</b>

Source: ECONorthwest, 2012

Exhibit 13 shows a more detailed look at changes in assessed value, including a breakdown of assessed value by property type, and change related to appeals, appreciation, and new development (exception value). Note that the significant exception value shown in FY 2015-16 is from the expiration of property tax exemptions for multiple properties (shown previously in Exhibit 11).

**Exhibit 13. River District Urban Renewal Area  
Projected growth in assessed value by property type  
FY 2012-13 to 2016-17**

Property Type	Assessed Value				
	2012-2013	2013-2014	2014-2015	2015-16	2016-17
<b>Real</b>					
Prior year value	\$ 1,711,620,950	\$ 1,759,275,883	\$ 1,806,184,135	\$ 1,855,702,839	\$ 2,000,701,933
Appreciation	\$ 47,654,933	\$ 46,908,252	\$ 49,518,704	\$ 52,041,963	\$ 57,876,565
Percent	2.78%	2.67%	2.74%	2.80%	2.89%
Exception	\$ -	\$ -	\$ -	\$ 92,957,131	\$ -
Ending value	\$ 1,759,275,883	\$ 1,806,184,135	\$ 1,855,702,839	\$ 2,000,701,933	\$ 2,058,578,498
<b>Personal</b>					
Prior year value	\$ 127,457,115	\$ 127,457,115	\$ 127,457,115	\$ 127,457,115	\$ 127,457,115
Appreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Percent	0.0%	0.0%	0.0%	0.0%	0.0%
Ending value	\$ 127,457,115	\$ 127,457,115	\$ 127,457,115	\$ 127,457,115	\$ 127,457,115
<b>Utility</b>					
Prior year value	\$ 225,300,000	\$ 218,541,000	\$ 211,984,753	\$ 205,625,196	\$ 199,456,423
Appreciation	\$ (6,759,000)	\$ (6,556,247)	\$ (6,359,557)	\$ (6,168,773)	\$ (5,983,711)
Percent	-3.0%	-3.0%	-3.0%	-3.0%	-3.0%
Ending Value	\$ 218,541,000	\$ 211,984,753	\$ 205,625,196	\$ 199,456,423	\$ 193,472,712
<b>Manufactured</b>					
Prior year value	\$ 7,590	\$ 7,817	\$ 8,010	\$ 8,010	\$ 8,010
Appreciation	\$ 227	\$ 193	\$ -	\$ -	\$ -
Percent	3.0%	2.5%	0.0%	0.0%	0.0%
Ending value	\$ 7,817	\$ 8,010	\$ 8,010	\$ 8,010	\$ 8,010
<b>Total Value</b>	<b>\$ 2,105,281,815</b>	<b>\$ 2,145,634,013</b>	<b>\$ 2,188,793,160</b>	<b>\$ 2,327,623,481</b>	<b>\$ 2,379,516,335</b>
Total Change	\$ 40,903,750	\$ 40,360,015	\$ 43,167,157	\$ 138,838,331	\$ 51,900,864
Percent Change	2.0%	1.9%	2.0%	6.3%	2.2%

Source: ECONorthwest 2012

Exhibit 14 forecasts the impact of future trends on the distribution of assessed value by AV/RMV ratio by the end of the forecast period. Compared to Exhibit 9, a larger share of assessed value has higher AV/RMV ratios, but the majority of properties still have maximum assessed values less than their real market values. Twenty seven percent of property will have a ratio of 100%, meaning the properties' real market values have dropped below the maximum assessed value, and limits annual growth in assessed value to less than 3% per year. This would be a cause for concern in later years if real market values were forecast to experience prolonged declines. However, we forecast market conditions to stabilize and approach 3% per year for most property types by the end of the forecast period. As long as the long-term trend for real property in the Area is real market value growth of 3% or more per year, then conditions will stabilize and improve, and assessed value growth in the Area should

return to “normal” (i.e., 3% per year, plus exception value from new development).

**Exhibit 14. River District Urban Renewal Area  
Assessed Value by AV/RMV Ratio, FY 2016-17**

<b>AV/RMV Ratio</b>	<b>Assessed Value</b>	<b>Percent</b>	<b>Cumulative Percent</b>
0-29%	\$ 77,056,585	3%	3%
30-39%	\$ 42,471,776	2%	5%
40-49%	\$ 237,689,831	10%	15%
50-59%	\$ 434,942,089	18%	33%
60-69%	\$ 228,076,036	10%	43%
70-79%	\$ 58,924,853	2%	45%
80-89%	\$ 175,365,750	7%	53%
90-99%	\$ 475,918,636	20%	73%
100%	\$ 649,070,779	27%	100%
<b>Total</b>	<b>\$ 2,379,516,335</b>	<b>100%</b>	<b>100%</b>

Source: ECONorthwest, 2012

The shifting of properties to higher AV/RMV ratios within the Area does not necessarily have a significant impact on the compression losses in the Area, since compression losses for the Area are calculated based on all properties citywide. The process for calculating compression losses is described in more detail in Section 3.4.

### **3.1.3 INCREMENTAL ASSESSED VALUE PROJECTIONS**

To calculate the incremental assessed value, we begin with data on all property in the Area. Then we forecast future growth in assessed value, using the growth rate assumptions for each property type (outlined in the previous section). Growth in assessed value and real market value is shown in Exhibit 12 above.

We subtract the frozen base value from the total assessed value to determine the incremental assessed value for each year. Exhibit 15 shows projected assessed value and incremental value from FY 2012-13 to FY 2016-17.

**Exhibit 15. River District Urban Renewal Area  
Projected growth in assessed value and incremental assessed value  
FY 2012-13 to 2016-17**

<b>Fiscal Year</b>	<b>Total Assessed Value</b>	<b>Frozen Base</b>	<b>Incremental Assessed Value</b>
2012-13	\$ 2,105,281,815	\$ 461,577,974	\$ 1,643,703,841
2013-14	\$ 2,145,634,013	\$ 461,577,974	\$ 1,684,056,039
2014-15	\$ 2,188,793,160	\$ 461,577,974	\$ 1,727,215,186
2015-16	\$ 2,327,623,481	\$ 461,577,974	\$ 1,866,045,507
2016-17	\$ 2,379,516,335	\$ 461,577,974	\$ 1,917,938,361

Source: ECONorthwest, 2012

Once the incremental assessed value is projected, we can estimate the Divide the Taxes Revenues to be raised by multiplying the incremental assessed value by the consolidated tax rates in each levy code area within the Area. The next step, therefore, is to project the annual consolidated tax rates.

## **3.2 STEP TWO: DETERMINE THE CONSOLIDATED TAX RATES**

The Area is entirely within levy code area 708. The sum of all the tax rates (including permanent rates, local option levy rates, and rates for bonds and other levies) of all taxing districts in a given levy code area is known as the *consolidated tax rate*.

The Area is a Standard Rate plan, meaning that it calculates Divide the Taxes Revenues from the sum of the tax rates of all permanent tax rates, the FPDR levy, local option levies, and general obligation bond levies. Note that the consolidated tax rate used to calculate Divide the Taxes Revenues for urban renewal does not include the rate for the urban renewal Special Levy that certain of the City's urban renewal areas (not including the Area) are authorized to receive. In FY 2011-12, this was \$0.2926/\$1,000 of assessed value. Exhibit 16 shows the FY 2011-12 consolidated tax rates for the Area, as well as projected future tax rates used to calculate the Divide the Taxes Revenue.<sup>11</sup>

<sup>11</sup> Our analysis does not attempt to predict future changes to Special Levy rates, nor does it attempt to forecast potential general obligation bond and local option levies that may be approved by voters in the future.



**Exhibit 16. River District Urban Renewal Area  
Consolidated Tax Rates for Calculating Area Divide the Taxes  
Revenues, Levy Code Area 709 (\$/1,000 of Assessed Value)  
FY 2011-12 to 2016-17**

<b>Levy Code Area 708</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>
<b>General Government - Permanent Rates</b>						
City of Portland	4.5770	4.5770	4.5770	4.5770	4.5770	4.5770
Port of Portland	0.0701	0.0701	0.0701	0.0701	0.0701	0.0701
Metro	0.0966	0.0966	0.0966	0.0966	0.0966	0.0966
Multnomah County	4.3434	4.3434	4.3434	4.3434	4.3434	4.3434
West Multno Soil	0.0732	0.0732	0.0732	0.0732	0.0732	0.0732
City of Portland FPDR*	2.4682	2.6202	2.8566	2.8903	2.9342	2.9642
<i>Subtotal</i>	<i>11.6285</i>	<i>11.7805</i>	<i>12.0169</i>	<i>12.0506</i>	<i>12.0945</i>	<i>12.1245</i>
<b>General Government - Local Option Levy Rates</b>						
City of Portland	0.4026	0.4026	0.4026	0.0000	0.0000	0.0000
Multnomah County	0.8900	0.8900	0.8900	0.8900	0.8900	0.8900
Oregon Historical Society	0.0500	0.0500	0.0500	0.0500	0.0500	0.0000
<i>Subtotal</i>	<i>1.3426</i>	<i>1.3426</i>	<i>1.3426</i>	<i>0.9400</i>	<i>0.9400</i>	<i>0.8900</i>
<b>General Government - GO Bond Rates</b>						
City of Portland	0.2402	0.2240	0.2177	0.2077	0.1187	0.1187
Metro	0.2188	0.2000	0.1533	0.1489	0.1446	0.1446
Multnomah County	0.1569	0.1377	0.1337	0.1077	0.0929	0.0929
TriMet	0.0583	0.0758	0.0000	0.0000	0.0000	0.0000
<i>Subtotal</i>	<i>0.6742</i>	<i>0.6376</i>	<i>0.5047</i>	<i>0.4643</i>	<i>0.3562</i>	<i>0.3562</i>
<b>General Government Subtotal</b>	<b>13.6453</b>	<b>13.7607</b>	<b>13.8642</b>	<b>13.4549</b>	<b>13.3907</b>	<b>13.3707</b>
<b>Education - Permanent Rates</b>						
Portland Public School	5.2781	5.2781	5.2781	5.2781	5.2781	5.2781
PCC	0.2828	0.2828	0.2828	0.2828	0.2828	0.2828
Multnomah County ESD	0.4576	0.4576	0.4576	0.4576	0.4576	0.4576
<i>Subtotal</i>	<i>6.0185</i>	<i>6.0185</i>	<i>6.0185</i>	<i>6.0185</i>	<i>6.0185</i>	<i>6.0185</i>
<b>Education - Local Option Levy Rates</b>						
Portland Public School	1.9900	1.9900	1.9900	1.9900	1.9900	1.9900
<b>Education - GO Bond Rates</b>						
PCC	0.3153	0.3185	0.3134	0.2560	0.2526	0.2526
<b>Education Subtotal</b>	<b>8.3238</b>	<b>8.3270</b>	<b>8.3219</b>	<b>8.2645</b>	<b>8.2611</b>	<b>8.2611</b>
<b>Consolidated Rate</b>	<b>21.9691</b>	<b>22.0877</b>	<b>22.1861</b>	<b>21.7194</b>	<b>21.6518</b>	<b>21.6318</b>

Source: ECONorthwest, 2012, from Multnomah County Assessors Office and Office of Management and Finance  
Note: The City of Portland is authorized to impose a levy for its Fire and Police Disability and Retirement Fund.  
The tax rate for their levy is expected to grow throughout the forecast period, though taxes to be raised by the fund are compressed as though they were from a permanent rate.

We used realistic and conservative assumptions on tax rates in the Area. We assumed that the City of Portland and Oregon Historical Society local option levies would expire as scheduled, but that the Multnomah County library and Portland Public School local option levies that are scheduled to



expire during the study period would be renewed and extended by voters at their current levy rates.<sup>12</sup> Additionally, we assumed no new general obligation bonds or other levies would be approved by voters. For general obligation bonds, we estimated future levy rates by dividing the scheduled debt service amount by the projected future assessed value of the jurisdiction, assuming 3% annual growth in assessed value.

If the local option levies are not renewed, then we would expect to see a decrease in Divide the Taxes Revenues, as well as a decrease in compression losses (as a percent of total taxes to be raised). Conversely, if new bonds or levies are approved, then we would expect to see increased Divide the Taxes Revenues, as well as increased compression losses. The higher Divide the Taxes Revenues would be expected to offset losses from compression, which overall would have a positive impact for Divide the Taxes Revenues in the Area.

To calculate the Divide the Taxes Revenues to be raised, the consolidated tax rate is multiplied by the incremental assessed value. It is important to note that although the Divide the Taxes Revenues are calculated within the urban renewal area, the tax rate is split at the city level. This is done by creating urban renewal tax rates, and adjusting other tax rates accordingly in each levy code area in the City.

Each district tax rate is “divided,” so that a portion of the revenues associated with that rate are allocated to the urban renewal district, and a portion continues to be allocated to the taxing district. The rate is calculated by dividing the Divide the Taxes Revenues that the district will generate in a given year by the total assessed value in that taxing district within the City. The result is an urban renewal rate, and an “urban renewal adjusted rate” for each taxing district rate. The Assessor calculates these rates for every combination of taxing district and urban renewal area in the City every year.

In other words, each taxing district’s rate is divided between the portion going to urban renewal and the portion it retains. The urban renewal rate is deducted from the taxing district’s rate. The total of all these deductions becomes the tax rate for the urban renewal area (the “Divide the Taxes Rate”). The Divide the Taxes Rate, when multiplied by the taxable assessed

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<sup>12</sup> A proposal to create a separate library district with its own permanent rate is currently under discussion. If submitted to and approved by the voters, this permanent rate would replace the local option levy currently included in the estimated consolidated tax rate. The Area would get the benefit of this new permanent rate. The size and impact of the new levy on Measure 5 compression has not been estimated at this time.

value of the property shared with the overlapping taxing districts within the City, determines the amount of Divide the Taxes Revenues to raise before the effects of Measure 5 compression.

### **3.3 STEP THREE: CALCULATE REVENUE SHARING**

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In 2009, the Oregon Legislature enacted HB 3056, which, among other things, established a system of revenue sharing for certain urban renewal areas. This legislation has now been incorporated in Oregon Revised Statutes (“ORS”) Chapter 457, which guides the formation and operation of urban renewal areas. When urban renewal areas approved on or after January 1, 2010, or for which maximum indebtedness has been increased attain certain thresholds of annual tax to be raised, some of the tax revenue is released by the urban renewal agency and shared with the other overlapping taxing districts. Earlier in this report, Exhibit 2 illustrates the concept of revenue sharing. Within the City of Portland, the River District currently is the only urban renewal area that is sharing tax revenues with the overlapping taxing districts.

In the River District Urban Renewal Area, revenue sharing occurs when annual taxes on the Incremental Assessed Value exceed the amount from FY 2009-10. PDC receives tax revenues equal to FY 2009-10, plus 75% of the excess amount. The remaining tax revenue is shared with other taxing districts. This formula remains in effect until the taxes to the Area exceed 10% of the Area’s maximum indebtedness, at which time the taxes allocated to the Area will be capped at that amount (\$48.95 million per year), and all additional tax revenue will be shared with other taxing districts.

If the actual amount of shared tax revenues that the City receives is different from the amount the City is entitled to receive, ORS 457 requires the City to “true up” tax increment collections by adjusting the incremental assessed value that the City gives to the assessor in the subsequent year, so that total Divide the Taxes Revenues the City receives are equal to the amount of Divide the Taxes Revenues that the City is entitled to receive for the Area.

In FY 2010-11 the Divide the Taxes Revenues that the City received for the Area exceeded the allowable amount by about \$396,000. Subsequently, in FY 2011-12, the Divide the Taxes Revenues that the City actually received exceeded the City’s allowable amount by about \$1.4 million. This figure is subject to the “true up” provision and the City will receive \$1.4 million less in Divide the Taxes revenues than it was otherwise entitled in FY 2012-13. This true up adjustment is reflected in our revenue sharing calculations.

### **3.4 STEP FOUR: FORECAST COMPRESSION LOSS**

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As described previously, State statutes limit the taxes on any property to \$10 per \$1,000 of real market value for general government, and \$5 per \$1,000 of real market value for education. If these limits are lower than the taxes to be raised by applying the effective tax rate to the assessed value, then compression occurs, and the tax burden for that property is reduced.

The Divide the Taxes Rate is included in the general government category. The Divide the Taxes rate is combined with the tax rates of other general government taxing jurisdictions (i.e., all public agencies not related to education) to calculate compression. For any property, if the taxes to be raised for general government are greater than \$10 per \$1,000 of real market value, then compression occurs.

The Divide the Taxes rate consists of three parts: taxes from local option levies, taxes from permanent rates and other levies, and taxes from general obligation bonds. Taxes from local option levies are compressed first. The Area is impacted proportionately based on the portion of its rate from local option levies compared to all other local option levies in a levy code area.

If all local option levies are reduced to zero, and the taxes to be raised still exceed \$10 per \$1,000 of real market value, then taxes are reduced further by reducing permanent rates and other levies. General obligation bond levies are not subject to Measure 5 compression. Once again, the impact to the Area is proportional, compared to other taxing districts in each levy code area.

The Multnomah County Assessor's Office calculates compression on a property-by-property basis. An accurate projection of compression for this feasibility study would require data and assumptions on the future real market value, assessed value, and tax rates for all property in each levy code area in the City. [Due to the complexity of calculating compression, ECONorthwest relied on historical trends and expected changes in RMV and tax rates over the forecast period.

To arrive at assumptions about compression change in our projections, we begin with an evaluation of historical levels of compression observed in the Area. Exhibit 17 shows compression losses for the Area from FY 2001-02 to FY 2011-12.

**Exhibit 17. River District Urban Renewal Area  
Historical compression losses  
FY 2001-02 to FY 2011-12**

Fiscal Year	Tax to be Raised	Compression and Other Losses	Divide the Taxes Revenue	Loss Percentage
2001-02	\$ 6,364,768	\$ (522,016)	\$ 5,842,752	-8.2%
2002-03	\$ 7,493,344	\$ (390,357)	\$ 7,102,987	-5.2%
2003-04	\$ 10,131,515	\$ (762,554)	\$ 9,368,961	-7.5%
2004-05	\$ 11,651,170	\$ (759,123)	\$ 10,892,047	-6.5%
2005-06	\$ 14,467,313	\$ (692,750)	\$ 13,774,563	-4.8%
2006-07	\$ 18,594,934	\$ (774,624)	\$ 17,820,310	-4.2%
2007-08	\$ 21,256,160	\$ (991,189)	\$ 20,264,971	-4.7%
2008-09	\$ 24,568,879	\$ (1,086,343)	\$ 23,482,535	-4.4%
2009-10	\$ 30,313,927	\$ (1,554,799)	\$ 28,759,128	-5.1%
2010-11	\$ 31,896,867	\$ (2,013,130)	\$ 29,883,737	-6.3%
2011-12	\$ 34,977,373	\$ (3,406,094)	\$ 31,571,279	-9.7%

Source: City of Portland Office of Management and Finance

Note: Compression losses include miscellaneous adjustments made by the County Assessor.

Compression losses have grown in dollar amounts over time. Compression losses as a percent of taxes to be raised were relatively high early in the decade, peaking at 8.2% in 2001-02. Compression losses decreased and leveled off, and were between 4% and 5% of taxes to be raised each year from 2005-06 to 2008-09. However, over the past several years, compression losses have begun to rise again, and were 9.7% of taxes to be raised in 2011-12, the highest level recorded in the past decade.

Factors that could cause compression losses to increase in the future include increased tax rates for general government, or a significant increase in the portion of properties with real market values declining relative to their assessed values. We emphasize that compression losses for the Area are determined by **citywide trends**, rather than just the properties within the Area. To account for the possibility of further decreases in real market value affecting compression rates across the City, we have conservatively assumed that compression losses will reach 14% of taxes<sup>13</sup> to be raised for the Area in FY 2012-13 and remain at that level for the five years included in this analysis. These assumptions are shown in Exhibit 18.

<sup>13</sup> We have assumed 14% due to expected continued declines in RMV over the next couple of years. Yet, while we expect RMV to stabilize later in the forecast period, we have conservatively assumed 14% throughout the forecast period

### 3.5 COMBINING THE STEPS: CALCULATE DIVIDE THE TAXES REVENUES

Exhibit 18 shows the projected Divide the Taxes Revenues, including the taxes on increment, revenue sharing, taxes to be raised (the amount for PDC), the compression loss, and taxes imposed. Despite conservative assumptions for real market value depreciation, revenue sharing, and compression losses, Divide the Taxes Revenues are anticipated to increase each year of the forecast period. Amount for PDC should be Amount for the Area.

#### Exhibit 18. River District Urban Renewal Area Projected taxes to be raised, compression losses, and Divide the Taxes Revenue FY 2012-13 to FY 2016-17

	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
<b>Taxes on Increment</b>	\$ 36,305,637	\$ 37,362,635	\$ 37,514,077	\$ 40,403,244	\$ 41,488,459
Revenue Sharing Amount	\$ (2,883,373)	\$ (1,762,178)	\$ (1,800,050)	\$ (2,522,317)	\$ (2,793,633)
<b>Taxes to be Raised</b>	\$ 33,422,261	\$ 35,600,458	\$ 35,714,028	\$ 37,880,927	\$ 38,694,826
Compression Loss	\$ (4,679,117)	\$ (4,984,064)	\$ (4,999,964)	\$ (5,303,330)	\$ (5,417,276)
<b>Taxes Imposed</b>	<b>\$ 28,743,144</b>	<b>\$ 30,616,394</b>	<b>\$ 30,714,064</b>	<b>\$ 32,577,597</b>	<b>\$ 33,277,550</b>
Compression Loss Percent	-14.0%	-14.0%	-14.0%	-14.0%	-14.0%

Source: ECONorthwest, 2011

Note: Includes a \$1,385,444 "true up" in FY 2012-13.

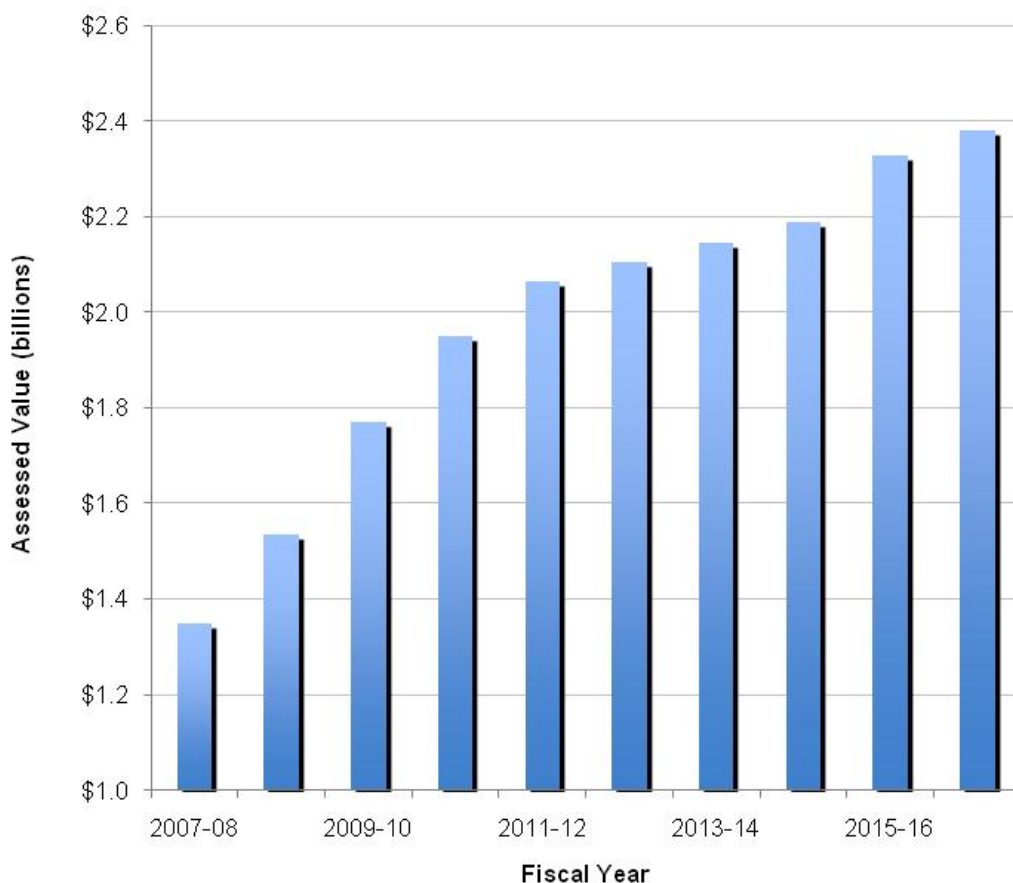
Over our five-year forecast period, the amount of revenue sharing decreased from \$2,883,373 in FY 2012-13 to \$1,800,050 in FY 2014-15 and increases again to \$2,793,633 in FY 2016-17. The revenue sharing amount accounts for a "true up" of \$1,385,444 in FY 2012-13.<sup>14</sup> Assuming compression losses remain at 14% of taxes to be raised for the duration of our forecast, we forecast annual compression loss will be \$4,679,117 in FY 2012-13, and increase to \$5,417,276 in FY 2016-17.

<sup>14</sup> In FY 2012-13, the City of Portland was required to "true up" tax increment collections by adjusting the incremental assessed value to account for the fact it received more Divide the Taxes Revenues than it was entitled in FY 2011-12. The \$1,385,444 true up value is shared among other taxing jurisdictions in FY 2012-13.

# Summary

Exhibit 19 shows historical and projected growth in assessed value in the Area. Future growth in assessed value from FY 2011-12 to FY 2016-17 is projected to be 3.1% per year, compared with 11.2% per year from 2007-08 to 2011-12.

**Exhibit 19. River District Urban Renewal Area  
Historical and projected growth in assessed value in Area  
FY 2007-08 – 2016-17**



Source: ECONorthwest, with historical raw data from Multnomah County Assessor's Office.  
Note: Actual values have not been adjusted for pending appeals.

Exhibit 20 shows projections for taxes to be raised, compression loss, and Divide the Taxes Revenues in nominal dollars from 2012-13 to 2016-17. Divide the Taxes Revenues are projected to be \$28,743,144 for FY 2012-13, and have an average annual growth rate of 3.7% over the next five years. The City's practice is to issue debt secured by Divide the Taxes Revenues using a level debt service amortization schedule that is based only on revenue collections in the year the bonds are issued. The City does not rely

on future growth in the Divide the Taxes Revenues to pay debt service. Any increase in the projected Divide the Taxes Revenues would provide an additional cushion to ensure debt service can be paid in the event of unanticipated losses of incremental assessed value, higher delinquencies, or other factors.

**Exhibit 20. River District Urban Renewal Area  
Projected Divide the Taxes Revenues, FY 2012-13 to FY 2016-17**

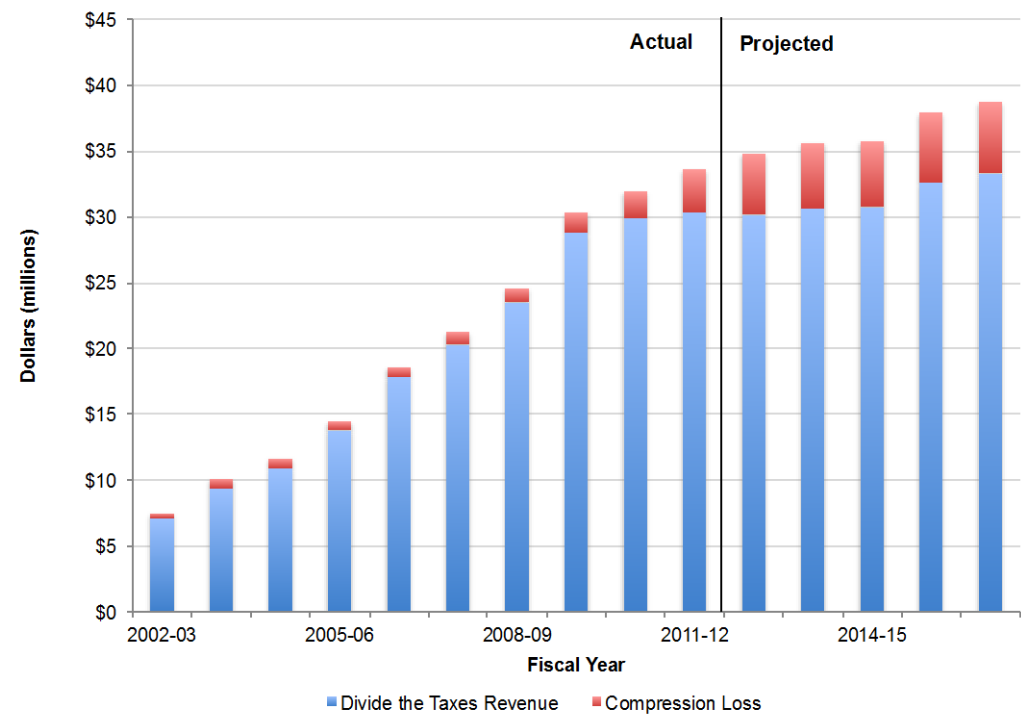
	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Total Assessed Value	\$ 2,105,281,815	\$ 2,145,634,013	\$ 2,188,793,160	\$ 2,327,623,481	\$ 2,379,516,335
Frozen Base	\$ 461,577,974	\$ 461,577,974	\$ 461,577,974	\$ 461,577,974	\$ 461,577,974
Incremental Assessed Value	\$ 1,643,703,841	\$ 1,684,056,039	\$ 1,727,215,186	\$ 1,866,045,507	\$ 1,917,938,361
Consolidate Tax Rate	\$ 22.0877	\$ 22.1861	\$ 21.7194	\$ 21.6518	\$ 21.6318
Taxes on Increment	\$ 36,305,637	\$ 37,362,635	\$ 37,514,077	\$ 40,403,244	\$ 41,488,459
Revenue Sharing Amount	\$ (2,883,373)	\$ (1,762,178)	\$ (1,800,050)	\$ (2,522,317)	\$ (2,793,633)
Taxes to be Raised	\$ 33,422,261	\$ 35,600,458	\$ 35,714,028	\$ 37,880,927	\$ 38,694,826
Compression Loss	\$ (4,679,117)	\$ (4,984,064)	\$ (4,999,964)	\$ (5,303,330)	\$ (5,417,276)
Compression Loss Percent	-14.0%	-14.0%	-14.0%	-14.0%	-14.0%
<b>Taxes Imposed</b>	<b>\$ 28,743,144</b>	<b>\$ 30,616,394</b>	<b>\$ 30,714,064</b>	<b>\$ 32,577,597</b>	<b>\$ 33,277,550</b>

Source: ECONorthwest, 2012

Note: Includes a \$1,385,444 "true up" in FY 2011-12.

Exhibit 21 shows historical and projected Divide the Taxes Revenues and compression losses. The chart shows that projected Divide the Taxes Revenues will grow at a slower rate than the observed historical trends. Also, forecast compression losses are a greater percentage of total taxes to be raised than historical trends.

**Exhibit 21. River District Urban Renewal Area  
Divide the Taxes Revenue and compression loss  
FY 2002-03 to 2016-17**



Source: ECONorthwest, 2012



# Disclaimers

This report identifies sources of information and assumptions used in the analysis. Every effort was made to check the reasonableness of the data and assumptions that underlie the projections in the report. But any forecast of the future is uncertain. Concluding that these assumptions are reasonable does not guarantee that they will be realized. The actual Divide the Taxes Revenues generated by the Area are subject to many unpredictable factors. Our analysis does not take into account the following factors that could cause actual Divide the Taxes Revenue collections to vary from our projections:

- Future legislative actions that affect the State property tax system or urban renewal
- Major external events that affect the local economy and real estate market
- Actions of individual property owners regarding the development or sale of property, or any other actions that could affect property values

ECONorthwest prepared this report based on its knowledge of economic impact analysis and feasibility studies for urban renewal areas, and information derived from government agencies (especially the Multnomah County Assessor's Office), private statistical services, the reports of others, interviews of individuals, or other sources believed to be reliable. ECONorthwest cannot verify the accuracy of all data sources used in this report and makes no representation regarding their accuracy or completeness. Any statements nonfactual in nature constitute the authors' current opinions, which may change as more information becomes available.

We have also described our analytic techniques and their limitations. Staff at the Portland Development Commission and Office of Management and Finance reviewed our analysis for reasonableness. As time passes the results in this report should not be used without correcting for changing market conditions.



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**APPENDIX F**  
**LEGAL OPINION**

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*On the date of issuance of the 2012 Bonds, Hawkins Delafield & Wood LLP, Bond Counsel, proposes to issue its approving opinion in substantially the following form:*

\_\_\_\_\_, 2012

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

Subject: City of Portland, Oregon, River District Urban Renewal and Redevelopment Bonds  
\$ \_\_\_\_\_ 2012 Series A (Federally Taxable)  
\$ \_\_\_\_\_ 2012 Series B (Tax-Exempt Refunding and Governmental Purpose)  
\$ \_\_\_\_\_ 2012 Series C (Tax-Exempt Non-AMT Private Activity)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Portland, Oregon (the "City") of its River District Urban Renewal and Redevelopment Bonds, 2012 Series A (Federally Taxable) (the "2012 Series A Bonds"), its River District Urban Renewal and Redevelopment Bonds, 2012 Series B (Tax-Exempt Refunding and Governmental Purpose) (the "2012 Series B Bonds"), and its River District Urban Renewal and Redevelopment Bonds, 2012 Series C (Tax-Exempt Non-AMT Private Activity) (the "2012 Series C Bonds," together with the 2012 Series B Bonds, the "Tax-Exempt Bonds" and the Tax-Exempt Bonds, together with the 2012 Series A Bonds, the "2012 Bonds"). The 2012 Bonds are issued pursuant to City Ordinance No. \_\_\_\_\_ adopted by the City Council on May 23, 2012 (the "Ordinance"), a Bond Declaration dated as of July 26, 2003 (the "Master Bond Declaration") and a First Supplemental Bond Declaration dated as of the date of delivery of the 2012 Bonds (together with the Master Bond Declaration, the "Declaration"). Capitalized terms used but not defined in this opinion have the meanings defined for such terms in the 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 which has been or may be supplied to the purchasers of the 2012 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 Declaration 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 2012 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 2012 Bonds constitute valid and legally binding obligations of the City enforceable in accordance with their terms.

2. The 2012 Bonds are special, limited obligations of the City secured solely by and payable solely from the Security.

3. Interest on the 2012 Series A Bonds is not excludable from gross income for federal income tax purposes.

4. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described below, (i) interest on the 2012 Series B Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) interest on the 2012 Series B Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code.

5. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described below, (i) interest on the 2012 Series C Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code, except that no opinion is expressed as to the exclusion from gross income of interest on any 2012 Series C Bond for any period during which such 2012 Series C Bond is held by a person who, within the meaning of Section 147(a) of the Code, is a “substantial user” of the facilities financed or refinanced with the proceeds of the 2012 Series C Bonds or a “related person,” and (ii) interest on the 2012 Series C Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax.

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

On the date of delivery of the Tax-Exempt Bonds, the City will execute a Tax Certificate (the “Tax Certificate”) containing provisions and procedures pursuant to which such requirements can be satisfied and Home Forward (“Home Forward”) and RAC Housing Limited Partnership (the “Partnership”) will execute a Tax Compliance Certificate (the “Tax Compliance Certificate”) relating to the ownership and use of certain facilities financed and refinanced with the Tax-Exempt Bonds. In executing the Tax Certificate and the Tax Compliance Certificate, the City, Home Forward, and the Partnership each covenant that it will comply with the provisions and procedures set forth in the Tax Certificate and the Tax Compliance Certificate respectively and that it will do and perform certain acts and things necessary or desirable to assure that interest paid on the Tax-Exempt Bonds will, for Federal income tax purposes, be excluded from gross income.

In rendering the opinions in paragraphs 4 and 5 hereof, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the City, Home Forward, and the Partnership in connection with the Tax-Exempt Bonds, and we have assumed compliance by those parties with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Tax-Exempt Bonds from gross income under Section 103 of the Code. We have also relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Certificate and the Tax Compliance Certificate with respect to matters affecting the status of interest paid on the Tax-Exempt Bonds, and (ii) compliance by the City, Home Forward, and the Partnership with the procedures and covenants set forth in the Tax Certificate and the Tax Compliance Agreement as to such tax matters.

6. Interest on the 2012 Bonds is exempt from Oregon personal income tax.

Except as stated in paragraphs 3, 4, 5 and 6 above, we express no opinion as to any other Federal, state or local tax consequences arising with respect to the 2012 Bonds or the ownership or disposition thereof, including the extent to which interest on the 2012 Series B Bonds is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. We render our opinion under existing statutes and court decisions as of the issue date, and we assume no obligation to update, revise or supplement this opinion after the issue date to reflect any action hereafter taken or not taken, or any facts or circumstances, or any change in law or in interpretations thereof, or otherwise, that may hereafter arise

or occur, or for any other reason. Furthermore, we express no opinion herein as to the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel other than ourselves on the exclusion from gross income for Federal income tax purposes of interest on the Tax-Exempt Bonds.

The portion of this opinion that is set forth in paragraph 1, above, is qualified only to the extent that enforceability of the 2012 Bonds may be limited by or rendered ineffective by (i) bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other laws affecting creditors' rights generally; (ii) the application of equitable principles and the exercise of judicial discretion in appropriate cases; (iii) common law and statutes affecting the enforceability of contractual obligations generally; and (iv) principles of public policy concerning, affecting or limiting the enforcement of rights or remedies against governmental entities such as the City.

This opinion is given as of the date hereof and is based on existing law, and we assume no obligation to update, revise, or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to our attention or any changes in law or interpretations thereof that may hereafter arise or occur, or for any other reason.

This opinion is limited to matters of Oregon law and applicable federal law, and we assume no responsibility as to the applicability of laws of other jurisdictions.

This opinion is provided to you as a legal opinion only, and not as a guaranty or warranty of the matters discussed herein. No opinions may be inferred or implied beyond the matters expressly stated herein. No qualification, limitation or exception contained herein shall be construed in any way to limit the scope of the other qualifications, limitations and exceptions. For purposes of this opinion, the terms "law" and "laws" do not include unpublished judicial decisions, and we disclaim the effect of any such decision on this opinion.

We have served as bond counsel only to the City in connection with the 2012 Bonds and have not represented and are not representing any other party in connection with the 2012 Bonds. This opinion is given solely for the benefit of the City in connection with the 2012 Bonds and may not be relied on in any manner or for any purpose by any person or entity other than the City, the owners of the 2012 Bonds, and any person to whom we may send a formal reliance letter, indicating that the recipient is entitled to rely on this opinion.

Very truly yours,





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**APPENDIX G**  
**CONTINUING DISCLOSURE CERTIFICATE**

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## CONTINUING DISCLOSURE CERTIFICATE

<b>\$_____,000*</b> <b>River District</b> <b>Urban Renewal and</b> <b>Redevelopment Bonds</b> <b>2012 Series A</b> <b>(Federally Taxable)</b>	<b>City of Portland, Oregon</b> <b>\$_____,000*</b> <b>River District</b> <b>Urban Renewal and</b> <b>Redevelopment Bonds</b> <b>2012 Series B</b> <b>(Tax-Exempt Refunding and</b> <b>Governmental Purpose)</b>	<b>\$_____,000*</b> <b>River District</b> <b>Urban Renewal and</b> <b>Redevelopment Bonds</b> <b>2012 Series C</b> <b>(Tax-Exempt Non-AMT</b> <b>Private Activity)</b>
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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 River District Urban Renewal and Redevelopment Bonds, 2012 Series A (Federally Taxable), its River District Urban Renewal and Redevelopment Bonds, 2012 Series B (Tax-Exempt Refunding and Governmental Purpose) (the “2012 Series B Bonds”), and its River District Urban Renewal and Redevelopment Bonds, 2012 Series C (Tax-Exempt Non-AMT Private Activity) (collectively, the “Bonds”).

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

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

“Beneficial Owner” means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds, including persons holding Bonds through nominees or depositories.

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

“Commission” means the Securities and Exchange Commission.

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

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

“Official Statement” means the final official statement for the Bonds dated \_\_\_\_\_, 2012.

“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, 2013, for the fiscal year ended June 30, 2012:

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

B. To the extent not included in those annual financial statements, information generally of the type included in the Official Statement under Appendix D: “City Operating and Financial Information” and the following current and historical information generally of the type in the Official Statement under the heading "Area Property Values, Tax Increment Revenues, and Indebtedness”

- Real Market Values and Assessed Values
- Changed Property Ratios
- Top Taxpayer Accounts
- Consolidated Tax Rates
- Measure 5 Compression
- Revenue Sharing - Actual and Statutorily Required Amounts
- Tax Collection Records
- Tax Increment Revenue Collections
- Long-Term Debt

Section 4. Timing. The information described in Section 3 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 to provide or cause to be provided to the MSRB in a timely manner not in excess of ten business days after the occurrence of the event, notice of any of the following events with respect to the Bonds:

- (a) Principal and interest payment delinquencies;
- (b) Non-payment related defaults, if material;
- (c) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) Unscheduled draws on credit enhancements reflecting financial difficulties;

- (e) Substitution of credit or liquidity providers or their failure to perform;
- (f) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
- (g) Modifications to the rights of security holders, if material;
- (h) Bond calls, if material, and tender offers;
- (i) Defeasances;
- (j) Release, substitution or sale of property securing repayment of the securities, if material;
- (k) Rating changes;
- (l) Bankruptcy, insolvency, receivership or similar event of the obligated person; (Note: For the purposes of the event identified in this paragraph (l), the event is considered to occur when any of the following occur: The appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.);
- (m) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (n) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

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

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

Section 7. Termination. The City's obligation to provide notices of material events shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. This Certificate, or any provision hereof, shall be null and void if the City (a) obtains an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require this Certificate, or any provision hereof, are invalid, have been repealed retroactively or otherwise do not apply to the Bonds; and (b) notifies the MSRB of such opinion and the termination of its obligations under this Certificate.

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

A. If the amendment relates to the provisions of Sections 3.A or 3.B or Section 5 hereof, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the City with respect to the Bonds, or the type of business conducted;

B. If this Certificate, as amended, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

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

In the event of any amendment of a provision of this Certificate, the City shall describe such amendment in its next annual filing pursuant to Section 3 of this Certificate, and shall include, as applicable, a narrative explanation of the reason for the amendment and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of the amendment shall be given in the same manner as for a material event under Section 5 hereof, and (ii) the annual filing pursuant to Section 3 of this Certificate for the first fiscal year that is affected by the change in accounting principles 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 9. Bondowner's Remedies Under This Certificate. The right of any Bondowner to enforce the provisions of this Certificate shall be limited to a right to obtain specific enforcement of the City's obligations hereunder, and any failure by the City to comply with the provisions of this undertaking shall not be an event of default with respect to the Bonds. Bondowners may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the City to comply with its obligations under this Certificate. A default under this Certificate shall not be deemed a default or an event of default under the documents authorizing issuance of the Bonds, and no monetary damages shall arise or be payable hereunder, and the sole remedy under this Certificate in the event of any failure of the City to comply with this Certificate shall be an action to compel performance.

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

Section 11. 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 12. 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 \_\_\_\_\_, 2012.

**City of Portland, Oregon**

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B. Jonas Biery, Debt Manager





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## **APPENDIX H**

### **BOOK-ENTRY SYSTEM**

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## **BOOK-ENTRY SYSTEM**

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

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for

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

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

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

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

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

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**APPENDIX I**  
**THE PORTLAND DEVELOPMENT COMMISSION**

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## **THE PORTLAND DEVELOPMENT COMMISSION**

The Portland Development Commission (the “Commission”) was created as a City agency in 1958 by Portland voters to deliver projects and programs that achieve the city’s housing, economic development and redevelopment priorities and link citizens to jobs.

### **PURPOSE AND FUNCTIONS**

The Commission is the City agency that helps provide sustained livability for the City and region. The mission is to bring together community resources to achieve Portland’s vision of a vital economy with healthy neighborhoods and quality jobs for all citizens. In the five decades since the Commission was established, City Council has created over 20 urban renewal areas in Portland neighborhoods to deliver a broad range of housing and neighborhood improvement programs, and has carried out a comprehensive range of economic development programs aimed at creating jobs for City residents. The Commission currently administers eleven urban renewal areas.

### **MANAGEMENT**

The Commission is governed by a five-member citizen Board, appointed by the Mayor and approved by the City Council. Commission business is conducted at monthly public meetings and all Commission activities are guided by its annual budget. The Executive Director of the Commission since March 23, 2011, is Patrick Quinton.

### **URBAN RENEWAL AREAS**

The Commission currently has four urban renewal areas – Airport Way, Downtown Waterfront, Oregon Convention Center, South Park Blocks – that were in existence on December 5, 1996 and designated as “Option 3” plans for tax collection purposes (the “Option 3 Plan Areas”). Five urban renewal areas, including River District, Lents Town Center, North Macadam, Interstate Corridor, and Gateway Regional Center, have been established since December 5, 1996, but before October 6, 2001, (the “Standard Rate Plan Areas”). Two urban renewal areas, the Willamette Industrial Urban Renewal Area and the Central Eastside Urban Renewal Area, have been formed or substantially amended on or after October 6, 2001 (the “Reduced Rate Plan Areas”). Tax increment revenues collected for one area may not be transferred to or used to pay debt service on indebtedness for another area.

In April 2012, the City Council adopted ordinances to create six small urban renewal areas, which will be located along commercial corridors in certain eastside neighborhoods. These urban renewal areas are being formed to strengthen the economic competitiveness of neighborhood business districts. In May 2012, the City Council adopted an ordinance approving a new urban renewal area in Portland’s west side, which will include property in the vicinity of Portland State University.

### **Collection Options**

Tax increment revenues for the Option 3 Plan Areas are derived from Divide the Taxes Revenues and also may include revenues from an additional tax imposed within the boundaries of their creating city or county (the “Special Levy”). The Standard Rate Plan Areas are only authorized to collect Divide the Taxes Revenues. The Divide the Tax Revenues for each of the Standard Rate Plan Areas are generated by multiplying the incremental assessed value of the area by the consolidated billing tax rate, which is the sum of all tax rates of overlapping taxing jurisdictions, including permanent rates, local option levy rates, the City’s FPDR levy rate, and general obligation bond rates. The Reduced Rate Plan Areas, which include the Central Eastside Urban Renewal Area, also are only authorized to collect the Divide the Taxes Revenues. However, the consolidated billing tax rate used to calculate the Divide the Taxes Revenues for these areas excludes all local option levies and general obligation bond levies approved by the voters on or after October 6, 2001, as well as a portion of the Portland Public School permanent rate.

### **Maximum Indebtedness**

The eleven urban renewal areas have approved plans establishing Maximum Indebtedness amounts, which are shown in the table below. The table also shows the amount of debt applied against the Maximum Indebtedness amount as of April 1, 2012. The Maximum Indebtedness amounts represent the maximum amount of debt that can be issued in each area through the life of the urban renewal plan to complete the projects identified in the plan. The City is not required to fund the Maximum Indebtedness amount.

**Table G-1**  
**CITY OF PORTLAND URBAN RENEWAL DISTRICTS**  
**Maximum Indebtedness and Debt Issued as of April 1, 2012 (1)**

<b>Urban Renewal District</b>	<b>Maximum Indebtedness</b>	<b>Debt Issued (2)</b>	<b>Remaining Indebtedness</b>
Airport Way	\$72,638,268	\$72,638,268	\$0
Central Eastside	104,979,000	83,779,340	21,199,660
Downtown Waterfront	165,000,000	165,000,000	0
Gateway Regional Center	164,240,000	29,680,073	134,559,927
Interstate Corridor	335,000,000	139,274,158	195,725,842
Lents Town Center	245,000,000	98,405,000	146,595,000
North Macadam	288,562,000	99,800,000	188,762,000
Oregon Convention Center	167,511,000	127,851,141	39,659,859
River District	489,500,000	237,223,033	252,276,967
South Park Blocks	143,619,000	112,035,000	31,584,000
Willamette Industrial	200,000,000	2,845,000	197,155,000
<b>Total</b>	<b>\$2,376,049,268</b>	<b>\$1,168,531,014</b>	<b>\$1,207,518,254</b>

Notes:

- (1) Totals may not foot due to rounding.
- (2) This amount includes both long term debt and short-term subordinate debt.

Source: City of Portland.

## **FINANCIAL OPERATIONS**

The Commission has been awarded the Government Finance Officers Association's (the "GFOA") Certificate of Achievement for Excellence in Financial Reporting every year since 1988. According to GFOA, the Certificate of Achievement is "the highest form of recognition in the area of governmental financial reporting." To be awarded the certificate, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report whose content conforms to program requirements and satisfies both generally accepted accounting principles and applicable legal requirements.

### **Budgeting Process**

The Commission prepares an annual budget in accordance with provisions of the Oregon Local Budget Law, which provides standard procedures for the preparation, presentation, administration, and approval of budgets. In addition to the annual budget, the Commission develops a five-year capital project forecast for planning purposes.

Every year between the months of October and January, the Executive Director of the Commission prepares a Requested Budget based upon the overall goals of the Commission, the goals and objectives in the respective urban renewal area plans, and availability of resources. The Commission engages in significant public outreach to stakeholder groups during the budget development phase. The budget development phase includes early involvement with the City Council, which is structured to enhance the linkage between the policies and strategic direction of City Council and Commission implementation. The Requested Budget is reviewed by the Commission, the City's Office of Management and Finance, and the City Council. Recommended changes by the Commission and the Council are incorporated into the Proposed Budget. The Proposed Budget is sent to City Council, acting as the Commission's Budget Committee, for review and approval.

In May 2007, City voters authorized a change to the City Charter to provide oversight of the Commission budget by the City Council and to authorize the City Auditor to conduct financial and performance audits of the Commission. The City Charter was amended to establish the City Council as the Commission's Budget Committee. Further, the 2007 State of Oregon Legislature passed House Bill 3104 (Chapter 670, Oregon Laws 2007), which amends ORS 294.341 to establish the City Council as the Budget Committee for the Commission's budget under Oregon Local Budget Law.

The FY 2012-13 Budget Process will be the fifth budget process that includes the City Council as the Commission's Budget Committee. The purpose of the Budget Committee is to publicly meet and review the Proposed Budget of the Commission. Through one or more public meetings, the Budget Committee will receive the Proposed Budget, provide an opportunity for the public to ask questions, and take action to approve the budget. When approving the budget, the Budget Committee through a



majority vote will take action to establish the maximum total expenditures for each fund. Following Budget Committee approval, the budget is forward to the TSCC for review and the Commission for review and adoption of the budget. When adopting the budget, the Commission cannot increase any one fund's expenditures by more than ten percent of the total approved by the Budget Committee.

The Commission has been awarded the GFOA's "Distinguished Budget Presentation Award" for its FY 2002-03 through FY 2011-12 budget documents. The Budget Awards Program is designed to encourage governments to prepare budget documents of the highest quality that meets criteria as an operations guide, as a financial plan, and as a communications device.

## **Insurance**

The Commission is not part of the City's self-insurance program and purchases a variety of commercial insurance policies to protect itself against loss. Like most other large public agencies, the Commission is exposed to various risks of losses related to torts, errors and omissions, general liability, property claims, injuries to employees, and unemployment claims.

The Commission is insured by the State Accident Insurance Fund ("SAIF") against losses from employee workers' compensation claims up to a limit of \$500,000 for each incident and each employee. The Commission is covered by a commercial general liability policy through Travelers Insurance in the amount of \$2,000,000 per occurrence and an additional \$5,000,000 excess liability policy subject to \$10,000 deductible and a blanket property policy through Lloyd's of London for \$100,000,000. A separate policy provides coverage for faithful performance (employee dishonesty) through Hartford Insurance in the amount of \$300,000, providing protection from losses from forgery, alteration, theft, and disappearance; employment practices liability coverage is provided through Zurich American Insurance in the amount of \$3,000,000 per claim with a \$150,000 deductible per claim; public officials errors and omission coverage is provided through Travelers in the amount of \$2,000,000 with a \$4,000,000 aggregate and a deductible of \$25,000 per claim. Automobile coverage for Commission fleet vehicles is provided through Travelers in the amount of \$1,000,000 for bodily injury/property damage with a \$250 deductible for comprehensive and \$500 deductible for collision. Umbrella policy provides an additional \$5 million under the excess liability umbrella policy.

The Commission has an aggressive risk management policy of transferring liability to contractors, lessees, event sponsors, and other entities through specific indemnification and insurance requirements in all contracts and agreements. The Commission has generally been successful in resolving claims and has not suffered any significant losses over the past year. In addition, there have been no significant reductions in insurance coverage or any insurance settlements that exceeded insurance coverage in any of the past six fiscal years.

The Commission also has an Internal Service Fund to meet insurance policy deductible amounts and other amounts not fully reimbursed from insurance proceeds, as necessary. The fund currently has an equity balance of \$248,000.





