

ORDINANCE No.

Authorize water revenue bonds to finance and refinance water system capital improvements
(Ordinance)

The City of Portland ordains:

Section 1. The Council finds:

1. The City is authorized to issue revenue bonds for any public purpose under ORS 287A.150. Revenue bonds issued under ORS 287A.150 may be payable from all or any portion of the water system revenues of the City.
2. The City may authorize revenue bonds under ORS 287A.150 by nonemergency ordinance. The City may not sell those revenue bonds until that nonemergency ordinance takes effect. If a nonemergency ordinance authorizing the revenue bonds is referred, the ordinance will not take effect and the City may not sell the revenue bonds authorized by that ordinance unless the voters approve those revenue bonds.
3. The City now finds it financially feasible and in the best interests of the City to authorize the issuance and sale of revenue bonds under ORS 287A.150 to finance the additions and improvements to the water system that are described in this paragraph. The additions and improvements that may be financed with revenue bonds authorized by this ordinance (the "Capital Improvements") include additions, improvements, and capital equipment that facilitate supply, treatment, transmission, storage, pumping, distribution, regulatory compliance, customer service and support.
4. It is desirable to obtain \$100,000,000 (One Hundred Million Dollars) of bonding authority to finance Capital Improvements under the Act.
5. The City is authorized by ORS 287A.360 to 287A.375 to issue bonds to refund outstanding bonds. Current interest rates are very low and may allow the City to refund certain outstanding water revenue bonds to reduce debt service costs.
6. The bonds described in this ordinance will be secured solely by the revenues of the City's water system and amounts related to that water system.
7. The City has previously enacted Ordinance No. 174241. That ordinance, as amended (the "Master First Lien Water System Revenue Bond Ordinance") provides the terms under which the City may issue revenue bonds that are secured by a first lien on the net revenues of the City's water system (the "First Lien Bonds").
8. On September 21, 2006, the City executed its Master Second Lien Water System Revenue Bond Declaration (the "Master Second Lien Declaration"). The Master Second Lien Declaration provides the terms under which the City may issue revenue bonds that are secured by a second lien on the net revenues of the City's water system (the "Second Lien Bonds").

9. It may be advantageous to obtain interim financing for the Capital Improvements by securing all or a portion of the Additional Bonds with a third lien on the net revenues of the City's water system (the "Third Lien Bonds") and selling those Third Lien Bonds to one or more commercial banks.

10. The City has issued and may issue water system revenue bonds to finance costs related to the City's water system. At times, interest rates may be lower than the interest rates borne by water system revenue bonds that the City has previously issued, and the City may be able to obtain debt service savings by refunding all or a portion of those outstanding water revenue bonds.

11. The City adopts this ordinance to obtain the authority to issue and to authorize the sale of \$100,000,000 of water revenue bonds to finance the Capital Improvements under the Act, and to authorize the refunding of outstanding water revenue bonds.

NOW, THEREFORE, the Council directs:

- A. Authorization of Capital Improvement Bonds. The Council hereby authorizes the issuance of not more than One Hundred Million Dollars (\$100,000,000) in aggregate principal amount of revenue bonds under the Act to finance the Capital Improvements, fund reserves and pay related costs (the "Capital Improvement Bonds"). No series of Capital Improvement Bonds may be sold and no purchase agreement for any series of Capital Improvement Bonds may be executed until this ordinance takes effect. This ordinance will take effect thirty days after it is enacted unless it is referred. If this ordinance is referred this ordinance will not take effect and the City may not sell the Capital Improvement Bonds unless the voters approve the Capital Improvement Bonds.
- B. Authorization of Refunding Bonds. The Council also authorizes the issuance of additional amounts of water revenue bonds pursuant to ORS 287A.360 to 287A.375 that are sufficient to refund outstanding water revenue bonds to reduce debt service costs, to refund interim financings for the water system, and to fund reserves and pay costs related to the water revenue refunding bonds (the "Refunding Bonds"). The authority provided under this Section 1.B. to issue refunding bonds shall remain in effect though December 31, 2012.
- C. Security for Additional Bonds. The Capital Improvement Bonds and the Refunding Bonds (collectively, the "Additional Bonds") shall be special obligations of the City that are secured solely by the net revenues of the water system and other amounts related to the city's water system that the City commits to pay the Additional Bonds.
- D. Sale of Additional Bonds; Delegation. The Council hereby authorizes the sale and delivery of the Additional Bonds as First Lien Bonds, as Second Lien Bonds or as Third Lien Bonds. When this ordinance takes effect the City's Debt Manager, City Treasurer, Chief Financial Officer of the Bureau of Financial Services, Chief Administrative Officer of the Office of Management and Finance, or the person designated by the Chief Administrative Officer of the Office of Management and Finance to act as Debt Manager

under this ordinance (any of whom is referred to in this ordinance as a “Debt Manager”) may, on behalf of the City:

1. Provide that the Additional Bonds may be issued in one or more series, any of which may be First Lien Bonds, Second Lien Bonds or Third Lien Bonds, and any of which may be sold at different times.
2. Provide that any Additional Bonds may be issued as taxable bonds that are eligible for federal interest subsidies (“Interest Subsidy Bonds”), if the Interest Subsidy Bonds are estimated to reduce the City’s interest expense below the estimated interest expense of traditional, tax-exempt bonds, and if federal law at the time Additional Bonds are issued allows Additional Bonds to be issued as Interest Subsidy Bonds. The Debt Manager may present to Council proposed amendments to the Master First Lien Water System Revenue Bond Ordinance that will facilitate issuance of Additional Bonds as Interest Subsidy Bonds, or may amend the Master Second Lien Declaration to facilitate issuance of Additional Bonds as Interest Subsidy Bonds.
3. Participate in the preparation of, authorize the distribution of, and deem final the preliminary and final official statements and any other disclosure documents for each series of the Additional Bonds.
4. Establish the final principal amounts, maturity schedules, interest rates, sale prices, redemption terms, payment terms and dates, record dates and other terms for each series of the Additional Bonds, and either publish a notice of sale, receive bids and award the sale of each series to the bidder complying with the notice and offering the most favorable terms to the City, or select one or more underwriters or commercial banks and negotiate the sale of any series with those underwriters or commercial banks.
5. Undertake to provide continuing disclosure for each series of the Additional Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission.
6. Apply for and purchase municipal bond insurance, reserve sureties or other forms of credit enhancements for each series of the Additional Bonds, and enter into related agreements.
7. Finalize the terms of, execute and deliver bond declarations that describe the terms of each series of the Additional Bonds. The bond declarations may also contain covenants for the benefit of the owners of the Additional Bonds, insurers of the Additional Bonds and providers of reserve sureties.
8. Appoint and enter into agreements with escrow agents, paying agents, verification agents and other professionals and service providers for the Additional Bonds.

- 9. Enter into covenants to maintain the excludability of interest on each series of the Additional Bonds from gross income under the Internal Revenue Code of 1986, as amended.
- 10. Issue the Capital Improvement Bonds and Refunding Bonds as provided in this ordinance.
- 11. Execute any documents and take any other action in connection with the Additional Bonds which the Debt Manager finds will be advantageous to the City.

E. Rate Covenant. The City covenants for the benefit of the owners of all First Lien Bonds that are sold under the authority of this ordinance that the City shall, when the First Lien Bonds are issued, charge rates and fees in connection with the operation of the Water System which, when combined with other Gross Revenues, are adequate to generate Net Revenues at least equal to one hundred twenty five percent (125.00%) of Annual Debt Service due in that Fiscal Year, with the Additional Bonds treated as Outstanding. Capitalized terms used in this Section 1.C that are not defined in this ordinance shall have the meanings defined for those terms in the Master First Lien Water System Revenue Bond Ordinance.

Passed by the Council,

Mayor Sam Adams
 Prepared by:
 Eric Johansen: Bond Counsel
 December 16, 2010

LAVONNE GRIFFIN-VALADE
 Auditor of the City of Portland
 By

Deputy



CITY OF PORTLAND
 OFFICE OF MANAGEMENT AND FINANCE
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 Ken Rust, Chief Administrative Officer

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DATE: December 16, 2010
TO: Mayor Sam Adams
FROM: Eric Johansen, City Treasurer ^{ET}
RE: Authorize water revenue bonds to finance and refinance water system capital improvements (Ordinance)

FOR MAYOR'S OFFICE USE ONLY
Reviewed by Bureau Liaison _____

- 1. **INTENDED WEDNESDAY FILING DATE (early filing):** December 29, 2010
- 2. **REQUESTED COUNCIL AGENDA DATE:** January 5, 2011
- 3. **CONTACT NAME & NUMBER:** Eric Johansen, City Treasurer, x3-6851
- 4. **PLACE ON:** CONSENT X REGULAR
- 5. **BUDGET IMPACT STATEMENT ATTACHED:** X Y N N/A
- 6. **(3) ORIGINAL COPIES OF CONTRACTS APPROVED AS TO FORM BY CITY ATTORNEY ATTACHED:** Yes No ✓ N/A

7. BACKGROUND/ANALYSIS

Introduction and History – Attached is an ordinance for first reading by the City Council on January 5, 2010. The Ordinance authorizes the City to issue up to \$100 million of First, Second and/or Third Lien Water System Revenue Bonds (the “Capital Improvement Bonds”) to finance additions and improvements to the water system. The additions and improvements to be financed with revenue bonds authorized by this ordinance include additions, improvements, and capital equipment that facilitate supply, treatment, transmission, storage, pumping, distribution, regulatory compliance, customer service and support. The Capital Improvement Bonds will be secured by the revenues of the City’s water system and amounts related to that water system and are expected to be sold in March 2011.

Additionally, the Ordinance authorizes the City to issue water system revenue refunding bonds (the “Refunding Bonds”) pursuant to applicable Oregon statutes to refund outstanding water revenue bonds to reduce debt service costs, to refund interim financings for the water system, and to fund reserves and pay costs related to the water revenue refunding bonds. If this Ordinance is approved by the Council, authority to issue Refunding Bonds would extend through December 31, 2012.

The Ordinance delegates to the Debt Manager certain tasks including negotiating the terms of and executing one or more bond declarations; establishing the final principal amounts, maturity schedules, interest rates, and other terms related to the sale of the bonds; purchasing municipal bond insurance or other forms of credit enhancement; determining whether bonds are to be secured either by a first lien, a second lien, or a third lien on the net revenues of the City’s water system; and executing documents.

Legal Issues – If the Ordinance is approved by the Council after its second reading, a 30-day referral period begins. If during the referral period, written petitions signed by at least six percent of the City’s electors are filed with the City Auditor, any bonding authority provided by the proposed Ordinance could not be used unless approved by the voters.

Link to Current City Policies – None.

Controversial Issues – None

Citizen Participation – Not Applicable

Other Government Participation – The City is working with the staff of the Water Bureau to complete the financing.

8. FINANCIAL IMPACT

While the final amount of the Capital Improvement Bonds will not be determined until the sale date of the these bonds, annual net debt service on the Capital Improvement Bonds is expected to be in the range of \$6.0 million annually. Debt service will be paid with revenues of the water system.

The City is currently evaluating whether savings can be achieved by refunding any of the outstanding water system revenue bonds and will issue Refunding Bonds if savings can be achieved in conformance with the City’s debt policies.

9. RECOMMENDATION/ACTION REQUESTED

It is recommended that the City Council approve this Ordinance in order to provide the necessary funding to continue the Water Bureau capital improvement program.

FINANCIAL IMPACT STATEMENT
For Council Action Items
(Use this form for Ordinances and Resolutions)
(Deliver original to Financial Planning Division. Retain copy.)

1. Name of Initiator Eric Johansen, Debt Manager	2. Telephone Number 503/823-6851	3. Bureau/Office/Dept. Financial Services/Public Finance and Treasury
4a. To be filed (date) December 29, 2010	4b. Calendar (Check One) Regular Consent 4/5ths [X] [] []	5. Date Submitted to FPD Budget Analyst: December 16, 2010

1) Legislation Title:

Authorize water revenue bonds to finance and refinance water system capital improvements (Ordinance)

2) Purpose of the Proposed Legislation:

The Ordinance authorizes the City to issue up to \$100 million of water system revenue bonds (the “Capital Improvement Bonds”) to finance additions and improvements to the water system. The additions and improvements to be financed with revenue bonds authorized by this ordinance include additions, improvements, and capital equipment that facilitate supply, treatment, transmission, storage, pumping, distribution, regulatory compliance, customer service and support. The Capital Improvement Bonds will be secured by the revenues of the City’s water system and amounts related to that water system.

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The Capital Improvement Bonds and the Refunding Bonds may be issued as First Lien Bonds, Second Lien Bonds, or Third Lien Bonds.

3) Revenue:

Will this legislation generate or reduce current or future revenue coming to the City? If so, by how much? If new revenue is generated identify the source.

This legislation will not generate or reduce current or future revenue to the City.

4) Expense:

What are the costs to the City as a result of this legislation? What is the source of funding for the expense? (Please include costs in the current fiscal year as well as costs in future years) (If the action is related to a grant or contract please include the local contribution or match required)

Issuance of the Capital Improvement Bonds will result in annual debt service costs to be paid over the life of the bonds. While the final amount of the issue will not be determined until the sale date of the Capital Improvement Bonds, annual net debt service is expected to be in the range of \$6.0 million annually.

The City is currently evaluating whether savings can be achieved by refunding any of the outstanding water system revenue bonds and will issue Refunding Bonds if savings can be achieved in conformance with the City's debt policies.

Staffing Requirements:

5) Will any positions be created, eliminated or re-classified in the current year as a result of this legislation? (If new positions are created please include whether they will be part-time, full-time, limited term or permanent positions. If the position is limited term please indicate the end of the term.)

No position changes are anticipated.

6) Will positions be created or eliminated in future years as a result of this legislation?

No position changes are anticipated.

Complete the following section only if an amendment to the budget is proposed.

7) Change in Appropriations (If the accompanying ordinance amends the budget please reflect the dollar amount to be appropriated by this legislation. Include the appropriate cost elements that are to be loaded by accounting. Indicate "new" in Center Code column if new center needs to be created. Use additional space if needed.)

Fund	Fund Center	Commitment Item	Functional Area	Funded Program	Grant	Amount

Eric Johansen, Debt Manager



APPROPRIATION UNIT HEAD (Typed name and signature)