

PRELIMINARY OFFICIAL STATEMENT DATED JULY 16, 2012

**NEW ISSUE—Competitive via Parity
BOOK-ENTRY ONLY**

**SALE DATE: July 24, 2012
RATING: Moody's Aaa**

In the opinion of Hawkins Delafield & Wood LLP, Portland, Oregon, Bond Counsel, assuming compliance with certain covenants of the City, interest on the 2012 Series A Bonds is excludable from gross income of the owners of the 2012 Series A Bonds for federal income tax purposes under existing law and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on either individuals or corporations; however, interest on the 2012 Series A Bonds is included in adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations. See "TAX MATTERS" herein for a discussion of the opinion of Bond Counsel. In the opinion of Bond Counsel, interest on the 2012 Series A Bonds is exempt from Oregon personal income tax under existing law.

\$74,560,000*

**City of Portland, Oregon
First Lien Water System Revenue Bonds
2012 Series A
Base CUSIP: 736754**

DATED: Date of Delivery

DUE: April 1, as shown on inside cover

The First Lien Water System Revenue Bonds, 2012 Series A (the "2012 Series A Bonds") will be issued in registered book-entry form only, in denominations of \$5,000 or integral multiples thereof. The 2012 Series A Bonds, when executed and delivered, will be registered in the name of Cede & Co., as the registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2012 Series A Bonds. While Cede & Co. is the registered owner of the 2012 Series A Bonds (the "Owner") as nominee of DTC, references herein to the Bondowners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the 2012 Series A Bonds. See "BEO System" herein.

The 2012 Series A Bonds will bear or accrue interest at the rates set forth in the schedule on the inside cover. The 2012 Series A Bonds will be dated as of the Date of Delivery. Interest on the 2012 Series A Bonds will be payable semiannually on April 1 and October 1 of each year, beginning October 1, 2012.

The 2012 Series A Bonds are being used to finance a portion of the costs of the Capital Improvement Plan for the Water System of the City of Portland (the "City") as more fully described herein. Additionally, proceeds of the 2012 Series A Bonds will be used to fund the Reserve Requirement for the 2012 Series A Bonds and to pay issuance costs.

The 2012 Series A Bonds are special obligations of the City, payable solely from the Net Revenues of the City's Water System and amounts deposited in the subaccount of the Revenue Bond Reserve Account for the 2012 Series A Bonds, all as defined in the City Ordinance No. 174241 as amended (the "First Lien Bond Ordinance"). The 2012 Series A Bonds are issued as "Bonds" and "Parity Obligations" under the First Lien Bond Ordinance, and are secured on a parity with other water revenue bonds that have a first lien on the Net Revenues of the Water System (collectively referred to herein as the "First Lien Bonds"). See "PROVISIONS OF THE 2012 SERIES A BONDS" herein. The 2012 Series A Bonds do not constitute general obligations of the City, and neither the full faith and credit nor the taxing power of the City is pledged for the payment of the principal of, premium (if any), or interest on the 2012 Series A Bonds. No recourse may be had against any funds or assets of the City (other than the Net Revenues of the Water System and the accounts described in this paragraph) to enforce payment of any amounts owing under or with respect to the 2012 Series A Bonds.

The 2012 Series A Bonds are subject to optional redemption prior to maturity as more fully described herein. See "REDEMPTION OF THE 2012 SERIES A BONDS."

The 2012 Series A Bonds are offered when, as and if issued by the City and accepted by the successful bidder, subject to prior sale, withdrawal or modification of the offer without notice, to the final approving opinion of Hawkins Delafield & Wood LLP, Portland, Oregon, Bond Counsel, and to certain other conditions. The City expects that the 2012 Series A Bonds will be available for delivery through the facilities of DTC in New York, New York, on or about August 2, 2012.

* Preliminary, subject to change.

MATURITY SCHEDULE

\$74,560,000*

First Lien Water System Revenue Bonds 2012 Series A

<u>Due April 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP No.** 736754</u>
2013	\$2,930,000			
2014	2,060,000			
2015	2,095,000			
2016	2,135,000			
2017	2,180,000			
2018	2,230,000			
2019	2,290,000			
2020	2,355,000			
2021	2,430,000			
2022	2,500,000			
2023	2,575,000			
2024	2,655,000			
2025	2,760,000			
2026	2,870,000			
2027	2,985,000			
2028	3,105,000			
2029	3,230,000			
2030	3,355,000			
2031	3,490,000			
2032	3,640,000			
2033	3,795,000			
2034	3,955,000			
2035	4,125,000			
2036	4,310,000			
2037	4,505,000			

* Preliminary, subject to change

** Registered Trademark 2012, American Bankers Association. CUSIP data is provided by Standard & Poor's CUSIP Service Bureau, a division of McGraw Hill Companies.

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

Relating to

\$74,560,000*

**First Lien Water System Revenue Bonds
2012 Series A**

CITY COUNCIL

Sam Adams,
Mayor and Commissioner of Finance and Administration

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

CITY OFFICIALS

LaVonne Griffin-Valade, City Auditor
Jennifer Cooperman, City Treasurer
James H. Van Dyke, Interim City Attorney
Jack D. Graham, Chief Administrative Officer
Richard F. Goward, Jr., Chief Financial Officer

DEBT MANAGEMENT

B. Jonas Biery, Debt Manager
City of Portland
1120 SW Fifth Avenue, Room 1250
Portland, Oregon 97204
Phone: (503) 823-4222
Fax: (503) 823-4209
Jonas.Biery@portlandoregon.gov

BOND COUNSEL

Hawkins Delafield & Wood LLP
Portland, Oregon

* Preliminary, subject to change.

No dealer, broker, salesperson or other person has been authorized by the City of Portland (the “City”) to give any information or to make any representations, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. Bond Counsel’s review of this document is limited; see “Legal Matters” herein. This Official Statement has been deemed final as of its date by the City pursuant to Rule 15c2-12 of the Securities Exchange Act of 1934, as amended. In accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, the underwriters have reviewed the information in this Official Statement but do not guarantee its accuracy or completeness.

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

This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of, the 2012 Series A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The 2012 Series A Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon a specific exemption contained in such act, nor have the 2012 Series A Bonds been registered under the securities laws of any state.

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

In connection with this offering, the successful bidder may over allot or effect transactions which stabilize or maintain the market price of the 2012 Series A Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued, and if discontinued, then recommenced, at any time.

TABLE OF CONTENTS

OFFICIAL NOTICE OF BOND SALE.....	i
INTRODUCTION	1
THE 2012 SERIES A BONDS	1
DESCRIPTION	1
AUTHORIZATION AND PURPOSE	1
FORM.....	2
MATURITY AND PAYMENT	2
REDEMPTION OF THE 2012 SERIES A BONDS.....	2
ESTIMATED SOURCES AND USES OF BOND PROCEEDS	3
DEBT SERVICE ON THE 2012 SERIES A BONDS.....	4
PROVISIONS OF THE 2012 SERIES A BONDS	6
SPECIAL OBLIGATION; PLEDGE OF NET REVENUES	6
FIRST LIEN BOND RATE COVENANT.....	6
FUNDS AND ACCOUNTS.....	7
APPLICATION OF GROSS REVENUES	7
RESERVE ACCOUNT	8
PARITY OBLIGATIONS	9
SUBORDINATE OBLIGATIONS.....	10
OTHER COVENANTS	11
CONSENT OF OWNERS OF 2012 SERIES A BONDS TO FUTURE AMENDMENTS.....	11
THE WATER SYSTEM	14
GENERAL INFORMATION.....	14
SOURCES OF SUPPLY	14
STORAGE AND DISTRIBUTION.....	17
SUMMARY OF KEY FEATURES	18
BULL RUN WATERSHED HYDROELECTRIC POWER GENERATION	19
WATER SYSTEM OPERATIONS	19
REGULATORY ENVIRONMENT	23
REGULATORY DEVELOPMENT	23
CURRENT AND EMERGING REGULATORY ISSUES.....	23
ORGANIZATION AND STAFF OF THE PORTLAND WATER BUREAU	27
BUREAU ORGANIZATION.....	27
ADMINISTRATOR'S OFFICE AND WORK GROUPS.....	29
MANAGEMENT PERSONNEL.....	29
CAPITAL IMPROVEMENT PLAN	32
THE CAPITAL PLANNING PROCESS.....	32
CAPITAL PROGRAMS AND PROJECTS.....	32
CAPITAL IMPROVEMENT PLAN RESOURCES AND REQUIREMENTS.....	33
FINANCIAL POLICIES AND PLANNING STANDARDS.....	36
FIVE-YEAR FINANCIAL PLAN.....	36
FINANCIAL OPERATIONS POLICIES	36
POLICIES AND PLANS GOVERNING BOND ISSUES	36
WATER SYSTEM OPERATING AND FINANCIAL INFORMATION	37
OVERVIEW.....	37
FUND ACCOUNTING SYSTEM.....	37
AUDITS.....	37
HISTORICAL OPERATING RESULTS	37
WATER SYSTEM CUSTOMERS AND DEMAND	40
RATES AND RATE SETTING.....	45
BILLINGS AND COLLECTIONS	48
SYSTEM DEVELOPMENT CHARGES	48
OTHER FINANCIAL INFORMATION	49

FINANCIAL PROJECTIONS	51
KEY FORECAST ASSUMPTIONS.....	51
USE OF RATE STABILIZATION ACCOUNT	52
FORECAST REVENUES AND EXPENDITURES.....	52
FORECAST RATES AND CHARGES	55
CITY ECONOMIC CHARACTERISTICS.....	57
PORTLAND-VANCOUVER-BEAVERTON METROPOLITAN STATISTICAL AREA	57
POPULATION	58
INCOME	59
EMPLOYMENT BY INDUSTRY	61
TRANSPORTATION AND DISTRIBUTION.....	65
TOURISM, RECREATION AND CULTURAL ATTRACTIONS.....	66
HIGHER EDUCATION	66
UTILITIES	67
AGRICULTURE.....	67
THE INITIATIVE PROCESS.....	68
PROCESS FOR QUALIFYING STATE-WIDE INITIATIVES TO BE PLACED ON THE BALLOT.....	68
FUTURE STATE-WIDE INITIATIVE MEASURES	69
LOCAL INITIATIVES.....	69
TAX MATTERS	69
OREGON PERSONAL INCOME TAX MATTERS.....	70
RATING	70
FORWARD LOOKING STATEMENTS.....	70
LEGAL MATTERS.....	71
LITIGATION.....	71
CERTIFICATE WITH RESPECT TO OFFICIAL STATEMENT	71
MISCELLANEOUS	71
CONTINUING DISCLOSURE	71
CONCLUDING STATEMENT.....	72
APPENDICES	
A: AMENDED MASTER FIRST LIEN WATER SYSTEM REVENUE BOND ORDINANCE SUMMARY – THE FIRST LIEN BOND ORDINANCE	
B: EXCERPTS OF AUDITED FINANCIAL STATEMENTS	
C: CITY OPERATING AND FINANCIAL INFORMATION	
D: LEGAL OPINION	
E: CONTINUING DISCLOSURE CERTIFICATE	
F: BEO SYSTEM	

OFFICIAL NOTICE OF BOND SALE

\$74,560,000

**City of Portland, Oregon
First Lien Water System Revenue Bonds
2012 Series A**

NOTICE IS HEREBY GIVEN that the City of Portland, Oregon (the “City”) is soliciting bids to purchase its First Lien Water System Revenue Bonds, 2012 Series A (the “Bonds”) until 8:00 a.m. (Prevailing Pacific Time) on:

July 24, 2012.

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

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

RATING: The Bonds have been rated Aaa by Moody’s Investors Service.

DATED DATE AND DELIVERY DATE: The Bonds will be dated as of their date of delivery. Bidders should use August 2, 2012, the expected delivery date of the Bonds, for purposes of computing their bids.

INTEREST PAYMENTS AND MATURITIES: Interest on the Bonds is payable semiannually on April 1 and October 1 of each year until maturity or prior redemption, commencing October 1, 2012. The Bonds will be issued in the principal amount of \$74,560,000*, and will mature on the following dates in the following principal amounts (subject to adjustment as noted below).

<u>Due April 1</u>	<u>Principal Amount (\$)</u>	<u>Due April 1</u>	<u>Principal Amount (\$)</u>
2013	\$2,930,000	2026	\$2,870,000
2014	2,060,000	2027	2,985,000
2015	2,095,000	2028	3,105,000
2016	2,135,000	2029	3,230,000
2017	2,180,000	2030	3,355,000
2018	2,230,000	2031	3,490,000
2019	2,290,000	2032	3,640,000
2020	2,355,000	2033	3,795,000
2021	2,430,000	2034	3,955,000
2022	2,500,000	2035	4,125,000
2023	2,575,000	2036	4,310,000
2024	2,655,000	2037	4,505,000
2025	2,760,000		

*This maturity schedule assumes that the winning bid will generate a net original issue premium, based on current market trends. Principal amounts may be adjusted after the sale as described under the heading “ADJUSTMENT OF MATURITIES.”

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

manner that preserves the successful bidder's percentage net compensation. Notice of any adjustment will be given to the successful bidder promptly.

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

OPTIONAL REDEMPTION: The Bonds are subject to optional redemption prior to maturity in whole or in part at the option of the City on or after April 1, 2022, in any order of maturity and by lot within a maturity, any such redemption to be at a price equal to 100% of the principal amount to be redeemed, plus accrued and unpaid interest thereon to the date fixed for redemption.

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

INTEREST RATE AND BID CONSTRAINTS: Bidders must specify the interest rate or rates which the Bonds shall bear. The bids must comply with the following conditions: (1) each interest rate specified in any bid must be a multiple of one-thousandth of one percent (0.001%); (2) each Bond that matures on the same date shall bear interest from its date to its stated maturity date at a single, fixed interest rate; (3) no bid will be considered that does not offer to purchase all of the maturities of the Bonds; (4) the maximum interest rate per maturity of the Bonds shall not exceed six percent (6.00%); (5) the interest rate specified for Bonds that mature after April 1, 2022 may not be less than the rate specified for the immediately preceding maturity (i.e., commencing April 1, 2023, the same rate of interest or an ascending rate of interest is required); (6) no bid will be accepted which results in a true interest cost of more than five and one-half percent (5.50%) per annum; (7) bids must be for a purchase price of not less than ninety-nine percent (99.0%) of the aggregate principal amount of the Bonds.

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

BIDS MUST BE SUBMITTED ON "PARITY": Bids must be submitted electronically via **PARITY**. Bids must be received by the **PARITY** system not later than the date and time indicated in the first paragraph of this Notice or such other bid submission deadline that may be established pursuant to the terms of this Notice. No bid will be received after the time for receiving bids specified above. For further information about submitting a bid using **PARITY**, potential bidders may contact **PARITY** at (212) 849-5021. To the extent any instructions or directions set forth in **PARITY** conflict with this Notice, the terms of this Notice shall control. Bidders must obtain access to the **PARITY** system and bear all risks associated with using that system, including errors and delays in receipt of bids. In the event there are any technical problems associated with **PARITY**, **PARITY** may fax bids that it receives prior to 8:00 a.m. (Prevailing Pacific Time), as soon as practicable to (503) 823-4209 to the attention of Jonas Biery, the City's Debt Manager, for consideration by the City. Bids received by **PARITY** prior to 8:00 a.m. (Prevailing Pacific Time), but faxed after 8:00 a.m. (Prevailing Pacific Time) as provided in the preceding sentence, shall be considered conforming to the time requirements of this Notice.

GOOD FAITH DEPOSIT: The successful bidder must provide a good faith deposit to the City in the amount of \$500,000 not later than 1:00 p.m. Prevailing Pacific Time, July 24, 2012 (the date of sale). The deposit must be provided in the form of (a) a wire transfer to the account of the City designated by a City representative at the time of award, or (b) a certified or cashier's check drawn on a bank doing business in the State of Oregon. If the good faith deposit is not provided in the manner and by the time indicated in this Notice,

the City may award the sale to the next most favorable bidder or may cancel the sale. The good faith deposit will be forfeited to the City as liquidated damages if the bidder to whom the Bonds are awarded withdraws its bids or fails to complete its purchase in accordance with the terms of its bid and this Notice. No interest will be allowed on the good faith deposit and the good faith deposit will be retained as part payment of the Bonds or for liquidated damages as described in this Notice. The City shall be entitled to retain for the sole and exclusive use and benefit of the City all investment earnings derived from each good faith deposit prior to the delivery of the Bonds, and in no event shall the successful bidder be entitled to any such investment earnings (whether by means of a credit or otherwise).

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

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

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

PURPOSE: The Bonds are being issued to finance a portion of the costs of the Capital Improvement Program for the Water System, and to pay costs related to the Bonds, as defined and described in greater detail in the preliminary official statement for the Bonds.

CERTIFICATE OF ISSUE PRICE, REOFFERING PRICE: The winning bidder must provide the City with the reoffering prices and yields for the Bonds within one hour after award of the bid. The reoffering prices and yields so provided will be printed on the cover of the final official statement for the Bonds. In addition, the winning bidder must provide a certificate, satisfactory to Bond Counsel, not later than two business days prior to the closing of the Bonds, containing information reasonably requested by the City and Bond Counsel as shall be necessary to enable the City to determine the "issue price" (within the meaning of Treasury Regulations Section 1.148-1) for each maturity of the Bonds. Such certificate will state, in part, that (i) the successful bidder has made a bona fide offering of all of the Bonds to the public at the reoffering yields or prices provided by the successful bidder; and (ii) the successful bidder reasonably expected that the first price at which at least 10% of each maturity of the Bonds would be sold to the public would be the respective reoffering yield or price for that maturity. For these purposes, the term "public" does not include bond houses, brokers and similar persons or organizations acting in the capacity of underwriters or wholesalers. Failure to provide the reoffering prices and yields, or the certificate satisfactory to Bond Counsel, may result in cancellation of the sale and forfeiture of the winning bidder's good faith deposit.

LEGAL OPINION: The approving opinion of Hawkins Delafield & Wood LLP, Bond Counsel, of Portland, Oregon, will be provided at no cost to the purchasers.

TAX-EXEMPT STATUS: In the opinion of Bond Counsel, under existing law and conditioned on the City complying with certain covenants relating to the tax-exempt status of the Bonds, interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, as provided in greater detail in the preliminary official statement for the Bonds. In the opinion of Bond Counsel, interest on the Bonds is exempt from Oregon personal income tax under existing law.

DELIVERY AND PAYMENT: The City will deliver the Bonds through the facilities of DTC. The successful bidder must pay for the Bonds in funds immediately available to the City on the date and at the time of closing. Delivery of the Bonds will be made within thirty days after the sale and is expected to occur on August 2, 2012.

ADDITIONAL INFORMATION AND PRELIMINARY OFFICIAL STATEMENT: Additional information and the preliminary official statement for the Bonds will be provided upon request to Jonas Biery at the City's Office of Management and Finance, 1120 SW Fifth Avenue, Room 1250, Portland, Oregon 97204,

telephone (503) 823-4222, telecopier (503) 823-4209, e-mail jonas.biery@portlandoregon.gov. The preliminary official statement may also be obtained from i-Deal Prospectus at www.i-dealprospectus.com. For more information on electronic delivery, please call i-Deal Prospectus at 212-849-5024. Any questions concerning **PARITY** should be directed to (212) 849-5021.

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

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

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

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

By order of the City of Portland, Oregon

**OFFICIAL STATEMENT
OF THE
CITY OF PORTLAND, OREGON
RELATED TO
\$74,560,000*
FIRST LIEN WATER SYSTEM REVENUE BONDS
2012 SERIES A**

INTRODUCTION

The purpose of this Official Statement is to set forth certain information concerning the City of Portland, Oregon (the “City”), the City’s Water System (the “Water System”), and the City’s First Lien Water System Revenue Bonds, 2012 Series A (the “2012 Series A Bonds”) dated as of the Date of Delivery. Reference is made to Appendix A (Amended Master First Lien Water System Revenue Bond Ordinance Summary) for key provisions of the First Lien Bond Ordinance.

THE 2012 SERIES A BONDS

DESCRIPTION

The 2012 Series A Bonds will be issued in registered Book Entry Only (“BEO”) form, without coupons, in denominations of \$5,000 or integral multiples thereof. The 2012 Series A Bonds, when executed and delivered, will be registered in the name of Cede & Co. as the registered owner and nominee for The Depository Trust Company, New York, New York (“DTC”). While the 2012 Series A Bonds are in BEO form, principal of and interest on the 2012 Series A Bonds will be paid through DTC. See “BEO SYSTEM,” found in Appendix F.

The 2012 Series A Bonds are valid and binding obligations of the City. The 2012 Series A Bonds are payable solely from the Net Revenues of the Water System as defined in the First Lien Bond Ordinance, and amounts deposited in the subaccount of the Revenue Bond Reserve Account for the 2012 Series A Bonds. The Water System is operated by the Water Bureau of the City (the “Bureau”).

AUTHORIZATION AND PURPOSE

The 2012 Series A Bonds will be issued pursuant to the authority conferred by Oregon Revised Statutes 287A.150. Revenue bonds issued under this authority may be payable from all or any portion of the Net Revenues of the Water System.

The 2012 Series A Bonds are authorized by City Ordinance No. 174241 as amended (the “First Lien Bond Ordinance”), which provides the terms under which the City may issue the 2012 Series A Bonds, City Ordinance No. 185418 adopted on June 13, 2012, which authorizes the issuance of the 2012 Series A Bonds and delegates the authority to the City’s Debt Manager to execute a bond declaration (the “Bond Declaration”). The Bond Declaration establishes terms and conditions specific to the 2012 Series A Bonds. The 2012 Series A Bonds are issued on parity with outstanding obligations and future borrowings issued under the First Lien Bond Ordinance (collectively referred to herein as the “First Lien Bonds”).

The 2012 Series A Bonds are being issued to finance a portion of the costs of the Capital Improvement Plan for the Water System. See “CAPITAL IMPROVEMENT PLAN” herein. Proceeds of the 2012 Series A Bonds also will be used to fund the Reserve Requirement for the 2012 Series A Bonds and to pay costs of issuance.

* Preliminary, subject to change.

FORM

The 2012 Series A Bonds will be issued in fully-registered form without coupons in denominations of \$5,000 or integral multiples thereof. The 2012 Series A 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 Series A 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 Series A Bonds who are the Beneficial Owners thereof will not receive certificates evidencing their ownership interests in the 2012 Series A Bonds. While Cede & Co. is the registered Owner of the 2012 Series A Bonds (in such capacity, the "Owner") as nominee of DTC, it shall be treated in all respects as the sole Owner of the 2012 Series A Bonds and shall have the right to exercise (in lieu of the Beneficial Owners of the 2012 Series A Bonds) all rights as Owner, including but not limited to the right to give consents, the right to receive notices (including notices of redemption), and other rights conferred on owners of the 2012 Series A Bonds under the Bond Declaration or applicable law. So long as the 2012 Series A Bonds are subject to the BEO System, all registrations and transfers of Beneficial Ownership of the 2012 Series A Bonds will be made only through the BEO System. See Appendix F, herein, for a discussion of the BEO System.

MATURITY AND PAYMENT

The 2012 Series A Bonds mature on April 1 of the years and in the aggregate principal amounts set forth on the inside cover page of this Official Statement and will bear interest from the Date of Delivery. Accrued and unpaid interest on the 2012 Series A Bonds will be due and payable semiannually on April 1 and October 1 of each year, commencing October 1, 2012, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

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

REDEMPTION OF THE 2012 SERIES A BONDS

Optional Redemption of the 2012 Series A Bonds

The 2012 Series A Bonds are subject to redemption prior to maturity in whole or in part at the option of the City on any date on or after April 1, 2022, in any order of maturity and by lot within a maturity. Any such redemption shall be at a price equal to 100% of the principal amount to be redeemed, plus accrued and unpaid interest thereon to the date fixed for redemption. In the case of any redemption of less than all of the outstanding 2012 Series A Bonds, the City shall have the right to specify the particular maturities to be redeemed and the aggregate principal amount of each maturity to be redeemed.

Notice of Redemption

Unless DTC consents to a shorter period, for any 2012 Series A Bonds which are in book-entry-only 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, and in the manner required in the city's Letter of Representations to DTC. No other notice shall be required.

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 Series A Bond or 2012 Series A Bonds called for redemption shall cease on the redemption date designated in the notice.

Conditional Notice of Redemption

Any notice of optional redemption to the Paying Agent or to the Owners may state that the optional redemption is conditioned upon receipt by the Paying Agent of moneys sufficient to pay the redemption price of such 2012 Series A Bonds or upon the

satisfaction of any other condition, and/or that such notice may be rescinded upon the occurrence of any other event, and the Bond Declaration provides that any conditional notice so given may be rescinded at any time before payment of such redemption price if any such condition so specified is not satisfied or if any such other event occurs. The Bond Declaration requires notice of such rescission or of the failure of any such condition to be given by the Paying Agent to affected Owners of 2012 Series A Bonds as promptly as practicable upon the failure of such condition or the occurrence of such other event.

Effect of Notice of Redemption

The Bond Declaration provides that official notice of redemption having been given (other than conditional notices of optional redemption as described above), the 2012 Series A Bonds or portions of 2012 Series A Bonds so to be redeemed shall, on the date fixed for redemption, become due and payable at the redemption price therein specified, and from and after such date (unless the City fails to pay the redemption price) such 2012 Series A Bonds or portion of 2012 Series A Bonds shall cease to bear interest.

ESTIMATED SOURCES AND USES OF BOND PROCEEDS

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

Table 1 CITY OF PORTLAND, OREGON Water Bureau Estimated Sources and Uses of 2012 Series A Bond Proceeds	
Sources of Funds	
Par amount of bonds	
Net original issue premium/(discount)	
TOTAL SOURCES	
Uses of Funds	
Deposit to construction fund	
Debt service reserve	
Underwriter’s discount	
Costs of issuance	
TOTAL USES	

Source: City of Portland.

DEBT SERVICE ON THE 2012 SERIES A BONDS

The following tables present the debt service on the 2012 Series A Bonds and annual debt service on all outstanding First and Second Lien Bonds, including the 2012 Series A Bonds.

Table 2
CITY OF PORTLAND, OREGON
Water Bureau
2012 Series A Bonds – Annual Debt Service Requirements

Fiscal Year			
Ending			
June 30th	Principal	Interest	Total
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
Total			

Source: City of Portland.

Table 3
CITY OF PORTLAND, OREGON
Water Bureau
Annual Debt Service Requirements – First and Second Lien Bonds (1)

Fiscal Year	2012 Series A	Outstanding	Total First	Outstanding	Total
Ending	Bonds	First Lien Bonds	Lien Bonds	Second Lien Bonds	Debt Service
June 30					
2013		\$27,028,763		\$4,550,319	
2014		27,012,525		4,549,500	
2015		27,031,113		4,546,750	
2016		27,018,538		4,548,750	
2017		27,285,113		4,546,175	
2018		27,285,738		4,549,300	
2019		28,402,413		4,547,475	
2020		28,396,584		4,547,325	
2021		28,402,181		4,547,400	
2022		20,615,403		4,546,178	
2023		20,618,731		4,548,131	
2024		20,625,663		4,547,869	
2025		15,878,031		4,549,825	
2026		15,878,431		4,548,591	
2027		15,875,438		4,548,131	
2028		15,878,294		4,548,563	
2029		15,876,044		4,547,113	
2030		15,878,075		4,547,988	
2031		15,872,288		4,545,875	
2032		15,877,069		4,550,125	
2033		15,878,731		-	
2034		15,875,425		-	
2035		10,477,313		-	
2036		5,654,250		-	
2037		-		-	
TOTAL		\$484,622,154		\$90,961,383	

Notes:

(1) Totals may not add due to rounding.

Source: City of Portland.

PROVISIONS OF THE 2012 SERIES A BONDS

The purpose of this section of this Official Statement is to set forth certain information concerning the City's 2012 Series A Bonds. The 2012 Series A Bonds are First Lien Bonds issued under the First Lien Bond Ordinance. See APPENDIX A herein for the principal provisions of the First Lien Bond Ordinance and definitions of terms used in relation to the 2012 Series A Bonds. The body of this section of this Official Statement describes key provisions of the First Lien Bond Ordinance. The Bond Declaration related to the 2012 Series A Bonds will have the interest rates, payment, defeasance, and other terms of the 2012 Series A Bonds added after the 2012 Series A Bonds are sold.

SPECIAL OBLIGATION; PLEDGE OF NET REVENUES

The 2012 Series A Bonds are special obligations of the City, payable solely from the Net Revenues of the Water System and amounts deposited in the subaccount of the Revenue Bond Reserve Account for the 2012 Series A Bonds. The 2012 Series A Bonds are secured on a parity with other First Lien Bonds issued under the First Lien Bond Ordinance. The Net Revenues are pledged to pay the 2012 Series A Bonds, and there are no obligations outstanding that have a pledge of or lien on the Net Revenues which is superior to the pledge of and lien on the Net Revenues for the 2012 Series A Bonds. Net Revenues do not include all revenues of the City relating to the Water System. (See Appendix A and the definitions of "Gross Revenues," "Operating Expenses," and "Net Revenues" for a detailed statement of the components of Net Revenues. See also "Consent of Owners of 2012 Series A Bond to Future Amendments," below.)

The 2012 Series A Bonds do not constitute general obligations of the City, and neither the full faith and credit nor the taxing power of the City is pledged for the payment of the principal of, premium (if any) or interest on the 2012 Series A Bonds. No recourse may be had against any funds or assets of the City (other than the Net Revenues of the Water System and the debt service reserve subaccount pledged to the repayment of the 2012 Series A Bonds) to enforce payment of any amounts owing under or with respect to the 2012 Series A Bonds.

See the definition of "Annual Debt Service" in Appendix A for the rules that apply to calculating Annual Debt Service for different types of First Lien Bonds, including Variable Rate Obligations and Parity Derivative Products. See also "Consent of Owners of 2012 Series A Bond to Future Amendments," below.

Under ORS 287A.310, if a municipality is authorized by statute or municipal charter to pledge its revenues, the pledge is valid and binding from the time the pledge is made, the revenues so pledged are immediately subject to the lien of such pledge without physical delivery, filing or other act, and the lien of such pledge is superior to all other claims and liens of any kind whatsoever. The Oregon Revised Statutes pursuant to which the 2012 Series A Bonds are being issued authorize such a pledge.

FIRST LIEN BOND RATE COVENANT

The City covenants for the benefit of all Owners of outstanding First Lien Bonds, including the 2012 Series A Bonds, that it will establish and maintain rates and charges in connection with the operation of the Water System that are sufficient to permit the City to pay all Operating Expenses and all lawful charges against the Net Revenues, and to make all transfers required by the First Lien Bond Ordinance to the Revenue Bond Account, the Revenue Bond Reserve Account, and the other accounts established in the First Lien Bond Ordinance.

In addition, the City covenants for the benefit of the Owners of all First Lien Bonds that it shall 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 each Fiscal Year at least equal to 1.25 times Annual Debt Service on First Lien Bonds due in that Fiscal Year. See the definition of "Annual Debt Service" in Appendix A for the rules which apply to calculating Annual Debt Service for different types of First Lien Bonds, including Variable Rate Obligations and Parity Derivative Products.

It shall not constitute an Event of Default if the City fails to comply with the rate covenant as long as the City engages the services of a Qualified Consultant; the Qualified Consultant recommends a schedule of rates and charges or other actions which the Qualified Consultant reasonably projects will permit the City to comply with the rate covenant for the then current fiscal year; and, the City implements the recommendations of the Qualified Consultant.

FUNDS AND ACCOUNTS

The City covenants to deposit the Gross Revenues in the Water Enterprise Fund.

The First Lien Bond Ordinance establishes the following accounts in the Water Enterprise Fund:

- **Revenue Bond Account:** Amounts in this account may be used only to pay First Lien Bonds.
- **Revenue Bond Reserve Account:** This account is divided into subaccounts for different Series of First Lien Bonds. Amounts in each subaccount may only be used only to pay the Series of First Lien Bonds secured by that subaccount, and only if amounts in the Revenue Bond Account and Net Revenues available in the Water Enterprise Fund are insufficient to pay that Series.
- **Subordinate Obligations Account:** Amounts in this account may be used to pay Subordinate Obligations.
- **Charter General Obligation Bond Account:** Amounts in this account may be used to pay general obligation bonds of the City issued under Section 11-103 of the City Charter to finance the Water System. The City has no current plans to issue general obligation bonds under the authority provided by the City Charter.
- **Capital Renewal Account:** Amounts in the Capital Renewal Account may be used solely to pay for capital costs of the Water System, including costs of repairing, replacing, improving and expanding the Water System.

APPLICATION OF GROSS REVENUES

As long as any 2012 Series A Bonds remain issued and outstanding, the First Lien Bond Ordinance provides that Gross Revenues shall be used solely to pay the following amounts in the following order of priority:

- To pay Operating Expenses of the Water System which are then due;
- To make payments to the Revenue Bond Account in an amount sufficient to make timely payment of all First Lien Bond principal and interest when due, as required by the First Lien Bond Ordinance;
- To make transfers to the Revenue Bond Reserve Account to maintain or restore the balance in that account to the Reserve Requirement in accordance with the First Lien Bond Ordinance;
- On the dates specified in any proceedings authorizing Subordinate Obligations, to pay the amounts required to be deposited in the Subordinate Obligations Account;
- To transfer to the Charter General Obligation Bond Account an amount sufficient to pay all principal, interest and premium, if any, due on City general obligation bonds issued pursuant to Section 11-103 of the City Charter as specified in the First Lien Bond Ordinance;
- To pay any franchise fees, utility license fees, and similar charges imposed by the City on the Water System; and
- While First Lien Bonds are Outstanding, to make transfers to the Capital Renewal Account in the amounts described in Section 1.B.1.i of the First Lien Bond Ordinance.

After all transfers and payments having a higher priority under this section have been made, Gross Revenues may be applied for any other lawful purpose.

RESERVE ACCOUNT

The 2012 Series A Bonds are additionally secured by a pledge of the City to fund and maintain, but solely from 2012 Series A Bond proceeds and Net Revenues, a separate subaccount in the Revenue Bond Reserve Account for the 2012 Series A Bonds in an amount equal to the lesser of: (1) the greatest amount of principal, interest and premium, if any, required to be paid in any Fiscal Year on the 2012 Series A Bonds; (2) 125% of the average amount of principal, interest and premium, if any, required to be paid on the 2012 Series A Bonds during all Fiscal Years in which the 2012 Series A Bonds will be Outstanding calculated as of the date of issuance; or (3) ten percent of the proceeds of the 2012 Series A Bonds, as proceeds is defined for purposes of Section 148(d) of the Internal Revenue Code of 1986, as amended. The City expects that the subaccount in the Revenue Bond Reserve Account for the 2012 Series A Bonds will be funded at the greatest amount of principal, interest and premium, if any, required to be paid in any Fiscal Year on the 2012 Series A Bonds. Amounts in the subaccount of the Revenue Bond Reserve Account for the 2012 Series A Bonds may only be used to pay the 2012 Series A Bonds. The Bond Ordinance allows the City to fund the Revenue Bond Reserve Account over a five year period following the issuance of each series of Bonds. (See Appendix A and the definitions of “Reserve Requirement” and “Tax Maximum.”) However, the City will fund the full deposit to the subaccount in the Revenue Bond Reserve Account for the 2012 Series A Bonds at closing of the 2012 Series A Bonds.

2012 Series A Bond Reserve Credit Facility

The City expects to fund the 2012 Series A Bond Subaccount with cash or other investments. However, the City reserves the right to replace cash and investments in the 2012 Series A Bond Reserve Subaccount with Reserve Credit Facilities at any time.

Reserve Credit Facilities for Other Subaccounts of the Revenue Bond Reserve Account

The following table describes outstanding Reserve Credit Facilities that are credited to various subaccounts of the Revenue Bond Reserve Account. Note that the surety face amounts for each Series of Bonds are sufficient to meet the Reserve Requirement for that Series and only secure the Series to which they are credited. Reserve Credit Facilities are valued at the amount the City is able to draw on them; all Reserve Credit Facilities are currently valued at their face amount. The Reserve Credit Facilities do not secure the 2012 Series A Bonds.

Table 4
CITY OF PORTLAND, OREGON
Water Bureau
Reserve Credit Facilities and Providers for First Lien Bonds (1) (4)

Date of Issue	Maturity Date	Surety Provider	Surety Face Amount	Insurer's Moody's Rating
05/06/2004	10/01/2015	AGM (2)	\$2,990,000	Aa3
05/06/2004	10/01/2023	AGM (2)	\$5,258,229	Aa3
09/21/2006	10/01/2020	National (3)	\$4,400,000	Baa2

Notes:

- (1) As of June 1, 2012.
- (2) The City purchased Reserve Credit Facilities from FSA for the Water System Revenue and Refunding Bonds, 2004 Series A and Series B. In July 2009, Assured Guaranty acquired FSA and the surety bond provider for these bonds is now Assured Guaranty Municipal Corp. (“AGM”).
- (3) Upon the issuance of the First Lien Water System Revenue Bonds, 2006 Series B, the City purchased a Reserve Credit Facility from MBIA Insurance Corporation (“MBIA”) to fund the Reserve Requirement. Since the date of issue, MBIA has been restructured. The surety provider for these bonds is now National Public Finance Guarantee Corporation (“National”).
- (4) The Reserve Requirements for the First Lien Water System Revenue and Refunding Bonds, 2010 Series A, the First Lien Water System Revenue Bonds, 2011 Series A, and the First Lien Water System Revenue Bonds, 2012 Series A were funded with cash.

Source: City of Portland.

PARITY OBLIGATIONS

The First Lien Bond Ordinance permits the City to issue Parity Obligations to provide funds for any purpose relating to the Water System, but only if no Event of Default has occurred and is continuing, there is no deficiency in the Revenue Bond Account, the balance in the Revenue Bond Reserve Account is at least equal to the Reserve Requirement, and there has been filed with the City either:

1. A certificate of the Director stating that Net Revenues (adjusted by the Director as provided below) for the Base Period were not less than one hundred twenty-five percent (125%) of the average Annual Debt Service on all Outstanding First Lien Bonds, with the proposed Parity Obligations treated as Outstanding; or,
2. A certificate or opinion of a Qualified Consultant stating that the Adjusted Net Revenues (computed as provided below) are at least one hundred twenty-five percent (125%) of the average Annual Debt Service on all Outstanding First Lien Bonds, with the Proposed Parity Obligations treated as Outstanding.

Net Revenues may be adjusted by the Director by adding any Net Revenues the Director calculates the City would have had during the Base Period because of increases in Water System rates, fees and charges which took effect after the beginning of the Base Period. However, no adjustment shall be made for these increases unless they have been approved by the Council prior to delivery of the Proposed Parity Obligations and are required to take effect no later than sixty days after the delivery of the proposed Parity Obligations.

The Qualified Consultant may compute Adjusted Net Revenues by adjusting the Net Revenues for the Base Period in any of the following ways:

1. If the First Lien Bonds are being issued for the purpose of acquiring operating Water System utility properties having an earnings record, the Qualified Consultant may estimate the effect on the Net Revenues for the Base Period if the Water System utility properties had been part of the Water System during the Base Period. The estimate shall be based on the operating experience and records of the City and any available financial records relating to the Water System utility properties which will be acquired.
2. To reflect any changes in rates and charges that have been adopted by the City Council and which:
 - a. Are in effect on the date of sale and delivery of the First Lien Bonds; or
 - b. Are to go into effect not later than twelve months after such date, and were not in effect during the entire Base Period.
3. To reflect any customers added to the Water System after the beginning of the Base Period and prior to the date of the Qualified Consultant's certificate;
4. If extensions of or additions to the Water System are in the process of construction on the date of the Qualified Consultant's certificate, or if the proceeds of the First Lien Bonds being issued are to be used to acquire or construct extensions of or additions to the Water System, to reflect any additional Net Revenues not included in the preceding paragraphs that will be derived from such additions and extensions (after deducting the estimated increase in operating and maintenance expenses resulting from such additions and extensions).

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

All Parity Obligations issued in accordance with the requirement of the First Lien Bond Ordinance shall have a lien on the Net Revenues which is equal to the lien of all other Outstanding First Lien Bonds.

SUBORDINATE OBLIGATIONS

Overview

The City may issue Subordinate Obligations, including bonds issued under the terms of the Master Second Lien Water System Revenue Bond Declaration executed by the City as of September 21, 2006 (the “Second Lien Bonds”), only if: 1) the Subordinate Obligations are payable solely from amounts permitted to be deposited in the Subordinate Obligations Account pursuant to the Ordinance; 2) the Subordinate Obligations are not subject to acceleration; and, 3) the Subordinate Obligations state clearly that they are secured by a lien on or pledge of the Net Revenues which is subordinate to the lien on, and pledge of, the Net Revenues for the Bonds.

Second Lien Bonds

The Master Second Lien Water System Revenue Bond Declaration describes requirements for issuing Second Lien Bonds. Among the key provisions are the following:

Second Lien Bond Rate Covenant. The City has covenanted for the benefit of the Owners of the Second Lien Bonds:

1. that it shall 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 each Fiscal Year at least equal to one hundred percent (100.00%) of Combined Annual Debt Service (defined as the sum of the Annual First Lien Bond Debt Service and the Annual Second Lien Bond Debt Service) on both First and Second Lien Bonds due in that Fiscal Year; and
2. that it shall charge rates and fees in connection with the operation of the Water System which, when combined with other Gross Revenues are adequate to generate Stabilized Net Revenues each Fiscal Year that are at least equal to one hundred ten percent (110.00%) of Combined Annual Debt Service due in that Fiscal Year.

Funds and Accounts. The Master Second Lien Water System Revenue Bond Declaration establishes the following accounts in the Subordinate Obligations Account of the Water Enterprise Fund:

- **Second Lien Bond Account.** Amounts in the Second Lien Bond Account maybe used only to pay Second Lien Bonds.
- **Second Lien Bond Reserve Account.** Amounts credited to the Second Lien Bond Reserve Account may be used only to pay Second Lien Bonds as follows. This account is divided into subaccounts for different Series of Second Lien Bonds. Amounts in each subaccount may only be used only to pay the Series of Second Lien Bonds secured by that subaccount. The City shall maintain an amount in each subaccount that is equal to the Second Lien Bond Reserve Requirement for the Series that is secured by that subaccount. The City may fund the Second Lien Bond Reserve Requirement for each Series of Second Lien Bonds with a Reserve Credit Facility. The City has funded the Reserve Requirement for its Second Lien Water System Revenue Bonds, 2006 Series A, with a Reserve Credit Facility in a face amount of \$4,550,588, which is provided by National (and originally issued by MBIA).
- **Junior Lien Obligations Account.** Amounts in this account may be used to pay Junior Lien Obligations, if any.

Second Lien Rate Stabilization Account. The Master Second Lien Water System Revenue Bond Declaration created the Second Lien Rate Stabilization Account (the “Rate Stabilization Account”) in the Water Operating Fund. As long as Second Lien Bonds are Outstanding, Net Revenues may be transferred to the Rate Stabilization Account at the option of the City as permitted by the Master Second Lien Water System Revenue Bond Declaration and may be withdrawn at any time and used for any purpose for which the Gross Revenues may be used. Deposits to the Rate Stabilization Account for a Fiscal Year shall decrease Stabilized Net Revenues for that Fiscal Year and withdrawals from the Rate Stabilization Account shall increase Stabilized Net Revenues for that Fiscal Year. It is the intent of the City to use such deposits and withdrawals to smooth the flow of Net Revenues of the Water System on a year-to-year basis to minimize the size of required Water System rate increases each year.

OTHER COVENANTS

The City covenants it will:

1. Promptly cause the principal, premium, if any, and interest on the First Lien Bonds and the Second Lien Bonds to be paid as they become due in accordance with the provisions of the First Lien Bond Ordinance and the Master Second Lien Water System Revenue Bond Declaration.
2. Maintain records relating to the operation of the Water System and all City funds and accounts in accordance with generally accepted accounting principles, and to have records to be audited annually, and the audit report made available for the inspection of First Lien Bond Owners and Second Lien Bond Owners.
3. For the benefit of First Lien Bond Owners, not issue First Lien Bonds or other obligations having a claim superior to the claim of the First Lien Bonds upon the Net Revenues.
4. For the benefit of Second Lien Bond Owners, not issue obligations which have a lien on the Net Revenues that is superior to the lien of the Second Lien Bonds except for the First Lien Bonds and obligations to pay the Operating Expenses.
5. Not amend the First Lien Bond Ordinance in any way that materially and adversely affects the right of the Owners of Second Lien Bonds; however, this covenant shall not be construed to limit the ability of the City to issue First Lien Bonds pursuant to the First Lien Bond Ordinance.
6. Promptly deposit the Gross Revenues into the funds and accounts as required by the First Lien Bond Ordinance and the Master Second Lien Water System Revenue Bond Declaration.
7. Operate the Water System in a sound, efficient and economic manner in compliance with all health, safety and environmental laws, regulatory body rules, regulatory body orders and court orders applicable to the City's operation and ownership of the Water System.
8. Cause the Water System to be maintained, preserved, reconstructed, expanded and kept in good repair, working order and condition.
9. Not enter into any new agreement to provide Water System products or services at a discount from published rate schedules or to provide free Water System products or services (except in case of emergencies).
10. Self insure the Water System, or purchase insurance on the Water System of the sort customarily maintained by entities such as the City with respect to properties like the Water System, and that it will apply the net proceeds of insurance covering Water System damage to repair or rebuild the Water System, or to the redemption of the First Lien Bonds and to the extent available after such payment, to the payment or redemption of the Second Lien Bonds on a pro rata basis.
11. Not sell, mortgage, lease or otherwise dispose of or encumber all or any portion of the Water System except as specifically permitted by the First Lien Bond Ordinance and the Master Second Lien Bond Declaration.

CONSENT OF OWNERS OF 2012 SERIES A BONDS TO FUTURE AMENDMENTS

The First Lien Bond Ordinance allows the City to make certain amendments to the First Lien Bond Ordinance if the City obtains the consent of the owners of at least fifty-one percent (51%) of the principal amount of First Lien Bonds that are outstanding when the amendments are made. By purchasing the 2012 Series A Bonds, owners will be deemed to have consented to the City making, at any time in the future, any or all of the amendments to the First Lien Bond Ordinance and the Master Second Lien Water System Revenue Bond Declaration that are described below in this section.

1. Amendments to the definitions of "Annual Debt Service" and "Combined Annual Debt Service" and related terms to reduce debt service, for purposes of the rate covenants and tests for Parity Obligations, by the amount of federal interest subsidy payments that have been received or are expected.
2. Amendments that pledge federal interest subsidy payments to pay First Lien Bonds and Second Lien Bonds.

3. Amendments to the definitions of “Operating Expenses” and related terms to provide that “Operating Expenses” do not include non-cash items.
4. Amendments that exclude from the definition of “Operating Expenses” amounts that were expected, at the time they were spent, to be treated for accounting purposes as payments for capital expenditures for a project that was being constructed to satisfy regulatory requirements of a state or a federal agency, but were not so treated because the City subsequently obtained a variance or other regulatory relief, thereby allowing the City to terminate the project.
5. Amendments that allow the City to choose whether to establish a subaccount in the Revenue Bond Reserve Account for Series of Bonds issued after the 2012 Bonds, and to establish the funding and maintenance requirements for any subaccounts in the Revenue Bond Reserve Account that the City creates after the 2012 Bonds are issued (“New Subaccounts”). The City may specify the minimum amount the City is required to maintain in any New Subaccount, and the existing provisions of the First Lien Bond Ordinance and the Master Second Lien Water System Revenue Bond 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:
 - a. Whether the New Subaccount may secure more than one Series of Bonds.
 - b. Whether credit facilities may be credited to a New Subaccount, and how those credit facilities will be valued.
 - c. The type of investments that may be credited to a New Subaccount and how those investments will be valued;
 - d. The size and frequency of the periodic deposits that are required to replenish the New Subaccount. However, any deposits that are required to replenish a New Subaccount shall be made pro rata with deposits that are required to replenish other subaccounts in the Revenue Bond Reserve Account.
 - e. Any other matters relating to the deposit to and application of funds from each New Subaccount.
6. Amendments that allow the City to secure multiple Series of First Lien Bonds with the 2012 Bond Subaccount or any subaccount that was created before the 2012 Bond Subaccount, and to require that the balance in such a subaccount be funded at the “Reserve Requirement,” substantially as defined below:

“Reserve Requirement” means the lesser of Maximum Annual Debt Service on all Outstanding Bonds that are secured by a subaccount in the Revenue Bond Reserve Account, or the amount described in the next sentence. If, at the time of issuance of a Series of Bonds that will be secured by a subaccount in the Revenue Bond Reserve Account, the amounts required to be added to that subaccount to make the balance in that subaccount equal to the Maximum Annual Debt Service exceeds the Tax Maximum calculated with respect to that Series of Bonds, then the Reserve Requirement shall mean the Reserve Requirement in effect on the date of issuance of the Series of Bonds (calculated as if the Series of Bonds being issued is not Outstanding), plus the Tax Maximum for the Series of Bonds. However, the City may elect to fund this Reserve Requirement for any Series of Bonds in equal annual installments over a period of five years, as provided in the Master Ordinance, as amended. If the City makes this election for a Series of Bonds, or if the City is entitled by other provisions of the Master Ordinance to replenish amounts in the Revenue Bond Reserve Requirement over time, the Reserve Requirement calculated for any particular date shall be reduced by any amounts which are not then due to be deposited in the Revenue Bond Reserve Account.

7. Amendments that:
 - a. Clarify that a reduction in ratings for a transaction that initially qualified as a Reserve Credit Facility will not cause the transaction to cease to qualify as a Reserve Credit Facility unless a “Reserve Credit Event” has occurred.
 - b. Define a “Reserve Credit Event” as the occurrence of any of the following: (a) the withdrawal or suspension of all Reserve Credit Facility Ratings for a Reserve Credit Facility; or (b) the downgrading of all Reserve Credit Facility Ratings for a Reserve Credit Facility below investment grade, or the equivalent rating reasonably determined by the City if rating terminology changes after 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 Credit Facility, and the requested funds are not delivered materially in accordance with the terms of such Reserve Credit Facility.

- c. Define a “Reserve Credit Facility Rating” as a long-term debt, financial strength or claims-paying ability rating assigned by a Rating Agency to: (a) a provider of a Reserve Credit Facility or (b) to any guarantor or reinsurer of the obligations of a provider under a Reserve Credit Facility.
 - d. Define “Rating Agency” as Fitch Investors Service, Inc., Moody’s Investors Service, Standard & Poor’s Corporation, or any other nationally recognized financial rating Agency which has rated Outstanding Bonds or a Credit Facility at the request of the City.
 - e. Permit the City to replenish any deficiency that arises in the Revenue Bond Reserve Account or any of its subaccounts as a result of the occurrence of a Reserve Credit Event over a period of five years in five substantially equal annual installments.
- 8. An amendment that allows the City to divide Bonds that are delivered in exchange for payment on the same date into more than one Series, as long as the division is clearly stated in the closing documents for the Bonds.
 - 9. Amendments that allow the First Lien Bond Ordinance to be converted into a bond declaration that is eligible to be amended by staff with approval of the City Council.
 - 10. Conforming amendments that are desirable to give effect to the amendments described in the preceding paragraphs.

The City may not put these amendments into effect until the City obtains the consent of the Owners of at least 51 percent of the total Outstanding principal amount of First Lien Bonds. Additionally, while the First Lien Water System Revenue Refunding Bonds, 2006 Series B and the Second Lien Water System Revenue Bonds, 2006 Series A are outstanding, these amendments will not take effect without the prior written consent of National Public Finance Guarantee Corporation, the current holder of the financial guaranty agreements related to those bond issues.

THE WATER SYSTEM

This section provides an overview of the Water System's water sources, storage and distribution, treatment, operations, and hydroelectric power generation.

GENERAL INFORMATION

The Water Bureau (the "Bureau") has supplied domestic water to residents of the Portland area for more than 100 years. The Bureau is the largest supplier of domestic water in Oregon. About 900,000 people, almost one-quarter of the state's population, are served by the Bureau on a wholesale and retail basis within its 225 square mile service area. The Bureau delivered about 33 billion gallons of water to its customers in Fiscal Year ("FY") 2010-11. Average annual daily water production is close to 95 million gallons ("MG"), but could exceed 180 MG.

SOURCES OF SUPPLY

The Bull Run Watershed

The primary source of water supply comes from the 65,000-acre Bull Run Watershed (the "Watershed"), which lies 26 miles east of the city in the Mt. Hood National Forest. A depiction of the water supply system is shown on the following page. Ninety-five percent of the lands within the Watershed are within the jurisdiction of the United States Forest Service (the "USFS") which has primary land management responsibilities for the area. The City owns the remaining five percent of those lands. The elevation of the Watershed ranges from 750 to 4,700 feet above sea level.

The Bull Run Watershed Management Unit, a 95,580-acre administrative boundary that encompasses the Watershed, is located within the Mt. Hood National Forest and administered by the USFS. The City and the USFS jointly manage this land under the statutory authority of United States Public Law ("P.L.") 95-200. A combination of three major administrative and legislative directives issued since 1994 have significantly enhanced federal water quality protection for the Watershed. These measures include:

- the 1994 Northwest Forest Plan, which established standards and guidelines for protecting terrestrial species dependent on old growth forest conditions (including the northern spotted owl) as well as protection for aquatic habitat;
- the 1996 Oregon Resources Conservation Act, an amendment to P.L. 95-200, which eliminates tree cutting within the Bull Run physical drainage area (except where it serves or enhances the Water System); and
- the 2001 Little Sandy Protection Act, an amendment to P.L. 95-200, which expanded the Bull Run Management Unit boundary by 2,550 acres and extended tree cutting prohibitions to the entire 95,580 acre unit.

In addition to these federal protections, Portland established City Code protections in February 2010 that implement the same tree-cutting restrictions in federal law for City-owned lands within and adjacent to the Bull Run Watershed Management Unit while also prohibiting any future non-drinking water related development within the Watershed.

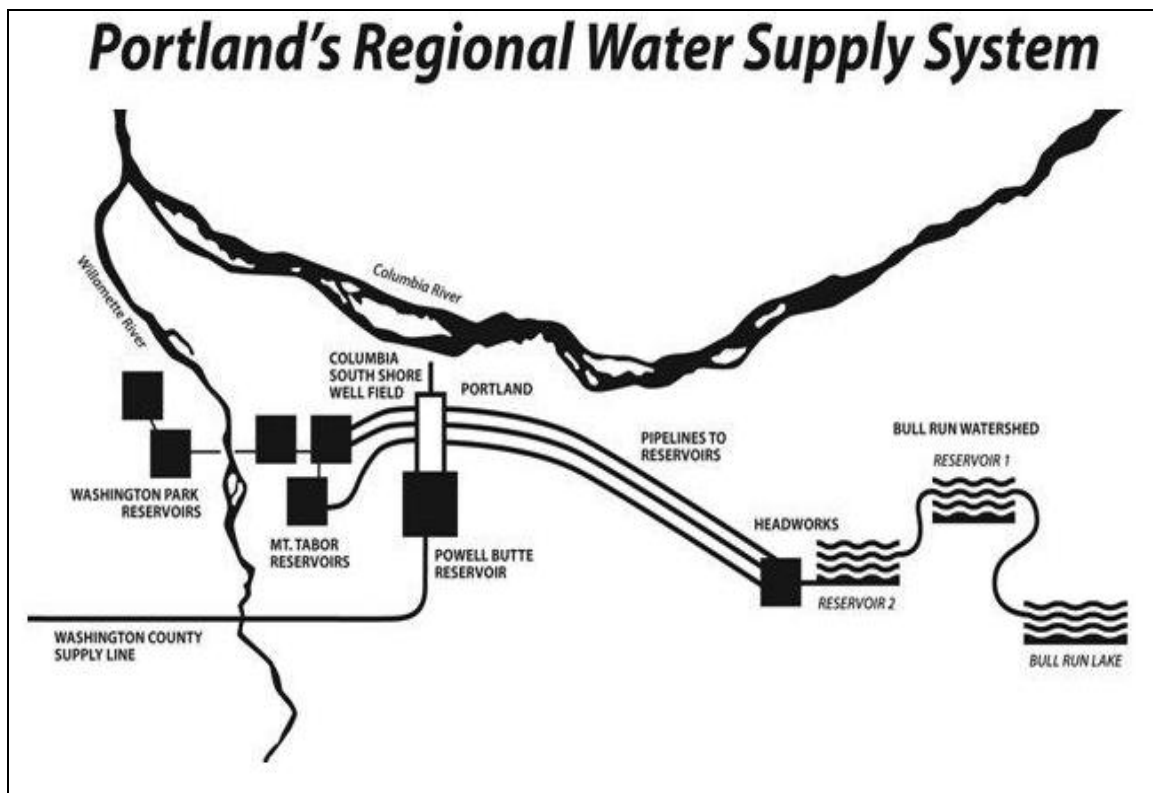
The Bull Run River is a very productive water source. Water is replenished by rain and snowmelt at an average annual daily flow rate of about 520 million gallons per day ("MGD"). Portland averages about 37 inches of rain per year while the Watershed averages about 135 inches per year. Average annual runoff at the mouth is about 575,000 acre-feet, which is equivalent to a water depth of 105 inches spread uniformly over the Watershed. The Watershed's water storage, including Reservoirs 1 and 2 plus Bull Run Lake, hold approximately 20.9 billion gallons of water with usable storage of approximately 9.9 billion gallons. The Watershed currently remains an unfiltered water source by continuously meeting the unfiltered criteria established by the U.S. Environmental Protection Agency (the "EPA") under the Surface Water Treatment Rule (the "SWTR"). In March 2012, a Final Order was issued by the Oregon Health Authority granting the City a variance to the treatment requirements of the Long Term 2 Enhanced Surface Water Treatment Rule (the "LT2 Rule"). Under the terms of the variance, the City is permitted to continue to operate the Watershed without treatment to address *Cryptosporidium*. (See "REGULATORY ENVIRONMENT—CURRENT AND EMERGING REGULATORY ISSUES" herein.)

Bull Run Lake, a natural lake located at the headwaters of the Bull Run River near the eastern boundary of the Watershed, is the highest elevation water body in the Watershed. Provisions of a 1997 USFS easement restrict the available capacity of Bull Run

Lake. Terms of this easement limit the volume available, the timing of use, and the mitigation requirements for releases that result in the lake not refilling by the following spring. In 1998, the City obtained “certification” of the easement from the State of Oregon under §401 of the Clean Water Act. The Bureau’s seasonal *Water Supply Augmentation and Contingency Plan* (“Summer Supply Plan”) includes an allotment of up to 0.7 billion gallons from Bull Run Lake under normal circumstances, and up to an additional 1.8 billion gallons if supply and demand conditions warrant voluntary curtailment. (See “WATER SYSTEM OPERATIONS—Water Supply Operations” herein for additional information about the Summer Supply Plan.)

Fourteen miles downstream from Bull Run Lake on the Bull Run River is Reservoir 1, also known as Lake Ben Morrow, which was created by the construction of Bull Run Dam 1 in 1929. Bull Run Dam 2, constructed in 1962, is located on the Bull Run River four miles downstream from Bull Run Dam 1, creating Reservoir 2. Reservoir 1 and Reservoir 2 have a storage capacity of 16.9 billion gallons. Operational capacity limits in both of these man-made impoundments are the result of drawdown restrictions designed to help ensure that turbidity levels remain acceptable and that the Bureau does not violate its current SWTR exemption. The current SWTR filtration exemption requires that the Bureau maintain the turbidity of Bull Run water below the standard of 5 Nephelometric Turbidity Units (“NTU”). The major strategy the Bureau uses to avoid violating the turbidity standard is to shut down the Watershed supply before the 5 NTU standard is reached and switch to the Columbia South Shore Well Field (the “CSS Well Field”) back up supply. (See “The CSS and Powell Valley Well Fields” below.) A secondary use for the CSS Well Field is in a supplementary capacity to maintain acceptable remaining storage levels in the Bull Run supply system.

Dam 1, Dam 2, and their two associated reservoirs are operated and maintained under a permit from the USFS as well as a Federal Energy Regulatory Commission (“FERC”) license. The USFS special use permit, which was issued in 1966, requires consultation with USFS staff for operation and maintenance activities. The special use permit for the reservoirs does not have an expiration date, but is subject to reevaluation by the USFS at its discretion. The FERC license regulates the timing and amount of water that can be released for hydropower purposes only.



Because of the high quality of the Watershed source and its SWTR filtration exemption, current treatment requirements for Portland are significantly reduced when compared to other systems utilizing surface water sources. (See “REGULATORY ENVIRONMENT—CURRENT AND EMERGING REGULATORY ISSUES” herein.) Current Watershed treatment facilities include only chlorine disinfection. The Headworks (primary) treatment facilities are located immediately below Bull Run Dam 2 in the Watershed. At the Headworks, chlorine is added for primary disinfection of the raw water. Water leaving the Headworks is continuously monitored to determine the free chlorine residual. Aqueous Ammonia (“Ammonia”) is added to the water at the

Lusted Hill Treatment Facility located approximately 10 miles downstream from the Headworks. Corrosion treatment is also located at the Lusted Hill Facility. Corrosion treatment began January 1, 1997, to comply with the EPA's Lead and Copper Rule.

Bull Run Co-Management with the United States Forest Service

Historically, USFS timber harvest revenues have funded water quality monitoring, road maintenance, and general management activities in the Watershed. However, the 1993 cessation of timber harvests in the Watershed has significantly reduced USFS financial resources and services. To ensure that critical maintenance, monitoring and management activities continue to be adequately addressed, the USFS and the Bureau have updated a joint management agreement describing the roles and responsibilities of each with respect to land management, resource protection and operations, and maintenance within the Bull Run Watershed Management Unit. The key Bureau criterion for these discussions has been to achieve clarity of roles and expectations so it can effectively develop a work plan and budget appropriate financial and staffing resources. In an effort to reduce road maintenance costs and protect water quality, the Bureau and the USFS have agreed to reduce the paved road network in the management unit by approximately 50 percent. As of September 2009, all of the nonessential roads in the water supply drainage have been decommissioned and the USFS has prepared a plan that prescribes decommissioning treatments for the remaining nonessential roads within the surrounding management unit. The Bureau has assumed responsibility for the maintenance of the remaining road system.

The agencies are also discussing a potential land exchange that would result in the Bureau obtaining ownership of federal lands immediately surrounding the two water storage reservoirs, the conduit right-of-way and the road network necessary to maintain the drinking water system and provide fire fighting access. In exchange, the Bureau would transfer to the USFS scattered land parcels it owns that are located farther away from the reservoirs. The purpose of this land exchange is to allow the Bureau to own contiguous parcels of property on which it has its facilities. The land exchange would also provide the Bureau with increased regulatory certainty on permitting issues associated with water storage and transmission in the Watershed. Initiated by City Council in 2010, the land exchange is expected to be completed during FY 2013-14.

The Bureau coordinates with the USFS and the Oregon Department of Forestry to ensure that the Watershed remains a top priority for wildland fire protection in the region. The Bureau provides annual training in wildland fire suppression to key maintenance staff that work in the Watershed and conducts fire patrols during high fire-danger conditions. In August 2011, a 6,300 acre wildfire on the northwest flank of Mt. Hood was pushed to within three miles of the Bull Run Watershed Management Unit before it was contained. Effective coordination between the Bureau and the USFS resulted in a high prioritization of the fire response and helped ensure that adequate resources were available for suppression. Lessons learned from this fire suppression effort will inform both agencies' efforts at updating the Bull Run fire management plan for the 2012 fire season.

The CSS and Powell Valley Well Fields

The CSS Well Field, completed in the 1980s, is the second largest developed water supply in Oregon after the Watershed. The intent of developing this groundwater supply was to provide both (1) an emergency backup source of water for the Watershed supply, and (2) a means to augment the Watershed supply source to help meet peak summer seasonal and daily demands. The Bureau currently operates the CSS Well Field each summer season to ensure that groundwater equipment is operational and to address maintenance needs.

The CSS Well Field, which includes twenty-seven wells, is located along the Columbia River east of the Portland International Airport. These operational wells have an initial capacity of over 100 MGD available for use and a long-term capacity of approximately 85 MGD. The City has an estimated additional 200 MGD of undeveloped water rights capacity in the CSS Well Field. In 2009, the City obtained final orders from the State of Oregon Water Resources Department for extensions to the four primary water rights in the CSS Well Field to 2085. The Bureau anticipates constructing the necessary infrastructure to bring some of its undeveloped well field capacity online over time as necessary to meet long-term growth in water demand, which has been detailed in a State-required Water Management and Conservation Plan.

Based on independent and Bureau laboratory certified tests, the CSS Well Field produces water that consistently meets or surpasses all health-based drinking water quality standards set by state and federal regulations. Approximately 65 percent of the CSS Well Field supply capacity comes from deep aquifers that are naturally protected from shallow near-surface chemical spills or contamination by laterally continuous fine-grained confining units up to several hundred feet thick. An additional 35 percent of the CSS Well Field supply capacity comes from a highly productive shallow aquifer that is located within a regional park and is therefore protected from commercial or industrial development. Groundwater produced from the CSS Well Field is treated with

hypochlorite and ammonia for disinfection and has the capability of having the pH raised to meet current Lead and Copper Rule requirements.

In recognition of the need to protect the CSS Well Field resources, the City has had an active Wellhead Protection Program in place since 1987. In July 2003, updates to the City's Wellhead Protection Program were codified by the Portland City Council. The current Wellhead Protection Program was developed cooperatively with the adjacent cities of Fairview and Gresham, along with input from local residents and representatives of commercial and industrial businesses located within the CSS Well Field "footprint." Within the geographic area covered by the groundwater protection zoning overlay, the Wellhead Protection Program includes regulations on the use, handling, storage and transport of certain chemicals; educational outreach, technical assistance, and an inspection program for businesses; and recommended best management practices for spill control and storm water management. This program's overall goal is to protect groundwater resources by preventing chemical spills that could seep into the ground and adversely affect groundwater quality.

The Bureau operates an extensive groundwater monitoring program, including about 100 monitoring wells, to protect the CSS Well Field. The Bureau's monitoring program consists of the ongoing routine monitoring of groundwater levels and groundwater quality in multiple aquifers throughout the CSS Well Field footprint and adjacent areas. A state-of-the-art computerized groundwater flow model has also been developed by the Bureau to assist in simulating and predicting groundwater flow in multiple aquifers under both static and pumping well field conditions.

To further ensure that the City's wells continue to produce high-quality drinking water into the future, the Bureau works cooperatively with the Oregon Department of Environmental Quality (the "DEQ") to identify, assess and clean up soil and groundwater contamination sites in and near the CSS Well Field. Although a few groundwater contamination sites are present in and near the CSS Well Field, all of the City's wells are available for full use. By agreement, the DEQ expedites the assessment and clean-up of sites in order to minimize potential risks to the CSS Well Field. The cooperative agreement with the DEQ, coupled with the City's Wellhead Protection and groundwater monitoring programs, are the cornerstones of the Bureau's strategy to protect the CSS Well Field resources.

The Powell Valley well system acquired by the City in 2005 includes six wells in two aquifers. The City currently has ample water supply to serve its customers and does not need to utilize these wells. Therefore, these wells would only be used as an emergency supply source. Various capital projects to improve booster pump capacity and treatment and build new mains to fully integrate these wells into the Water Bureau supply system are being evaluated. Currently no capital projects related to these wells are included in the Bureau's CIP.

STORAGE AND DISTRIBUTION

Bull Run water is supplied by gravity from the Watershed's primary intake structure located at the Headworks facility. Water is conveyed from Headworks to Portland through three large-diameter pipelines to the terminal storage reservoir on Powell Butte. Over the last two miles, the three pipelines are combined with the groundwater system intertie pipeline. Conduit vulnerability to natural and man-made hazards has been reduced along the 20-mile pipeline route to the Powell Butte Reservoir by strengthening bridges or burying exposed sections. These interties significantly reduce the quantity of water between shutdown locations and provide the capability of remotely redirecting flows in case of an emergency such as a pipe breaking or leaking. The interties are located in the Watershed at Larson's Intertie, just before the ammoniation/corrosion treatment facility at Hudson's Intertie and along 162nd Avenue in Portland. A recently completed project mitigated potential flood and landslide damage for conduits 2 and 4 at the Sandy River crossing. These two conduits were buried deep below the river bed and can produce enough Bull Run supplied water for current summer demands even if conduit 3 were lost in an event. The Bureau also modifies conduit operations throughout the year to minimize the potential for a simultaneous outage caused by landslides or other failure modes. Generally accepted management practices are utilized in conduit selection to produce the best water quality for given demand scenarios.

The Bureau's in-town Water System storage consists of six large terminal storage reservoirs and 67 in-service smaller standpipes and tanks, with a total storage capacity of over 300 MG. Water flows from the Powell Butte Reservoir to the other five terminal reservoirs or directly to west side wholesale customers through the Washington County Supply Line. Secondary disinfection treatment facilities are located at the Mt. Tabor Park and Washington Park terminal reservoirs. These facilities are designed to add chlorine to ensure that an accurate chloramination ratio is maintained. The LT2 Rule requires the City to change how its open finished drinking water reservoirs are utilized, managed, and operated. (See "REGULATORY ENVIRONMENT—CURRENT AND EMERGING REGULATORY ISSUES" herein.)

There are six active Willamette River crossings (including the Washington County Supply Line) that supply the Bureau's west side customers. Pumping facilities supply all areas higher in elevation than the terminal storage reservoirs. The transmission and distribution system is constructed of cast iron, ductile iron, steel, and copper piping and is in good condition with an expected future life of 50 to 200 years. Valves are located in the transmission and distribution piping to allow control during repairs, maintenance, or improvements. Fire hydrants are located on the distribution piping network to provide fire protection to Water System customers. All customers are metered. The distribution system also includes drinking and decorative fountains for use by the public.

The Bureau's supply and distribution system is constantly monitored and controlled via the Water Control Center located at the Bureau's Interstate facility. The original computer-based Supervisory Control and Data Acquisition System was completed in 1991, providing monitoring and control for most of the Bureau's facilities from a central location. A third-generation system upgrade is in progress and is expected to be completed in 2013.

SUMMARY OF KEY FEATURES

The following table summarizes key features of the Water System.

Table 5
CITY OF PORTLAND, OREGON
Water Bureau
Water System Statistics (December 31, 2011) (1)

Watershed Storage Capacity	20.9 billion gallons
Normal Operational Capacity	9.9 billion gallons
No. of CSS Groundwater Wells	27
Initial Capacity	102 MGD
No. of Transmission Conduits	3
Miles of Conduit Pipe	75
Miles of Intertie Conduit Pipe	4
Maximum Watershed Transmission Capacity	212 MGD
No. of In-Town Terminal Storage Reservoirs	6
No. of Standpipes and Tanks	67
Total In-Town Storage Capacity	300 million gallons
Miles of Transmission and Distribution Pipe	2,200
No. of Pump Stations	39
No. of Pumps	130
No. of Services	181,295
- Single Family Residential	150,700
- Multi-Family Residential	10,580
- Commercial and Industrial	19,960
- Wholesale	54
No. of Fire Hydrants	14,270
No. of Valves (excl. hydrant valves)	48,149
No. of Drinking and Decorative Fountains	149

Notes:

(1) Numbers are approximate.

Source: City of Portland.

BULL RUN WATERSHED HYDROELECTRIC POWER GENERATION

The City owns two hydroelectric powerhouses in the Watershed which are a part of the Portland Hydroelectric Project (the “Hydroelectric Project”). The Hydroelectric Project’s facilities were constructed from 1979 to 1982 and consist of a powerhouse with a 24-megawatt (36,000 horsepower) turbine/generator below Dam 1, a powerhouse with a 12 megawatt (12,000 horsepower) turbine generator below Dam 2 and ten miles of power transmission lines required to connect the Hydroelectric Project’s powerhouses with the Portland General Electric (“PGE”) power system grid. The Hydroelectric Project’s powerhouses are physically operated and maintained by PGE personnel as a condition of the Hydroelectric Project’s power sales agreement between the City and PGE. The total annual power generation from these facilities averaged about 85,700 megawatt-hours over the last 28 years of operation but varies from year to year based on the actual amount and distribution of rainfall falling over the Watershed in those years.

The Hydroelectric Project’s powerhouses were constructed and are now operated under a license from the FERC as well as permits from the USFS and certain other State of Oregon agencies. Both the FERC license and the USFS permit clearly place the power generation aspect of the Hydroelectric Project in a secondary role to that of municipal water supply. These documents further restrict the Hydroelectric Project from varying the City’s two major water supply reservoirs any more than two feet below their respective dam spillway crests solely for hydropower generation purposes with certain exceptions. The FERC license and associated USFS special use permit for hydropower facilities expire in 2029.

The Hydroelectric Project’s FERC license boundary encompasses the facilities described above plus Dam 1 and Dam 2 and their respective reservoirs. The Hydroelectric Project’s hydroelectric power staff applies the requirements of the FERC’s dam safety program to those dams and reservoirs. As a part of that work, updated dam safety inspections and dam stability analyses are periodically performed for the Hydroelectric Project’s dams and emergency action plans are prepared and exercised for the river channel downstream of the Hydroelectric Project.

The Hydroelectric Project’s facilities and its associated revenues and expenses are accounted for under its own City Fund structure and per the First Lien Bond Ordinance are excluded from the Water System and its associated accounting.

WATER SYSTEM OPERATIONS

Water Supply Operations

Under normal conditions the Bureau can supply 100 percent of customer water needs entirely from the Watershed and under emergency conditions, the CSS Well Field can be used to supply base (fall, winter and spring) demands or to supplement the Bull Run supply to meet summer peak demands. The Bureau has established an annual summer supply planning process to coordinate and communicate yearly supply operations. Since 1992, the Summer Supply Plan has been updated annually. The plan provides a pre-agreed list of supply augmentations and demand reduction options that the Bureau can implement as needed, and contains trigger and implementation criteria under different forecast scenarios.

The Bureau is equipped to continue normal uninterrupted water service during a widespread power outage. Water delivered from the Watershed to Powell Butte is gravity fed, and backup generators are in place to maintain current treatment processes. Within the distribution system, the Bureau maintains seasonally adjusted storage that enables it to meet domestic use, fire and emergency needs, and most local pumping requirements (mainly for the hills of Portland’s west side) and the Water Control Center are backed up with both permanent and mobile generators or pumpers.

To help ensure a timely and proper response to a severe or catastrophic event, the Bureau has an Emergency Management Program with an Emergency Operations Center (“EOC”). From the EOC, the Bureau’s Emergency Manager can assist in planning and coordinating the Bureau’s actions during emergencies. The Bureau has certified many of its employees in the National Incident Management System (“NIMS”) to enhance its capabilities to effectively respond to a local emergency. The Bureau is currently updating its EOC and communication equipment to better prepare for a severe or catastrophic event with additional funding from federal grants. The Supervisory Control and Data Acquisition system, which monitors and manages the Water System’s in-town storage, is undergoing an upgrade that will include disaster mitigation by creating a fully redundant off-site water control center at the Lusted Treatment Facility.

Strategic Supply Planning

Background

The Bureau provides water to over 50 percent of the population in the Portland metropolitan area, including Multnomah, Washington, and Clackamas counties. (See “CITY ECONOMIC CHARACTERISTICS – Portland-Vancouver-Beaverton Metropolitan Statistical Area” herein.) The Bureau currently sells about 40 percent of its water on a wholesale basis to 19 cities, special districts, and private water companies.

Regional Water Providers Consortium

The region’s water providers have formed a Regional Water Providers Consortium (the “Consortium”), which operates with an elected officials Board and Executive Committee, one Technical Advisory Committee, as well as a Conservation Committee and an Emergency Preparedness Committee. The current size of the Consortium is 22 water providers and Metro and is jointly financed and operates through an annually approved work plan and budget administered by the City through a staffing intergovernmental agreement. The Consortium works together on water supply planning, water conservation media messaging, and emergency preparedness.

Wholesale Water Sales Agreements

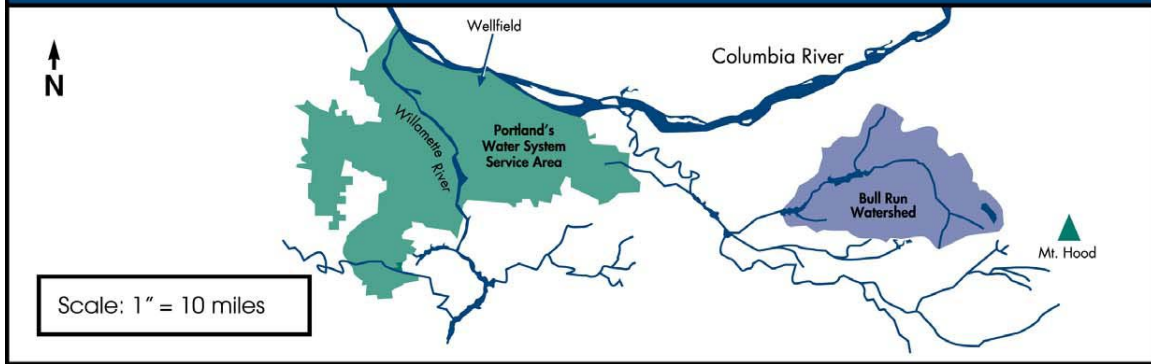
The City sells water on a long-term wholesale basis to 13 cities and public water districts. In 2006 and 2007, five of the 13 cities and public water companies signed 10-year agreements and eight signed 20-year agreements. In addition, the Bureau sells water to six small private water companies with similar agreements, whose contracts renew every five years. In 2009, the City signed a contract with a 20th wholesale customer, the City of Sandy, for water to be delivered beginning no later than November 2013.

A significant feature of the agreements is the guaranteed supply and payment provisions. In exchange for the Bureau guaranteeing a predetermined water supply to each wholesale customer based on their respective needs, the wholesale customers will pay the Bureau for those annual quantities on a take-or-pay basis during the contract period. This provision means that the Bureau’s wholesale revenues are considerably more stable and not subject to adverse demand fluctuations due to weather, economic downturns, or other factors for the duration of the contracts. The only variation in revenues would occur from mutually agreed-upon sales beyond the take-or-pay quantities or from changes in the ratio of peak-to-average demands of the users. The City currently has ample water supply to meet all obligations to deliver water as required by these agreements and to its retail customers.

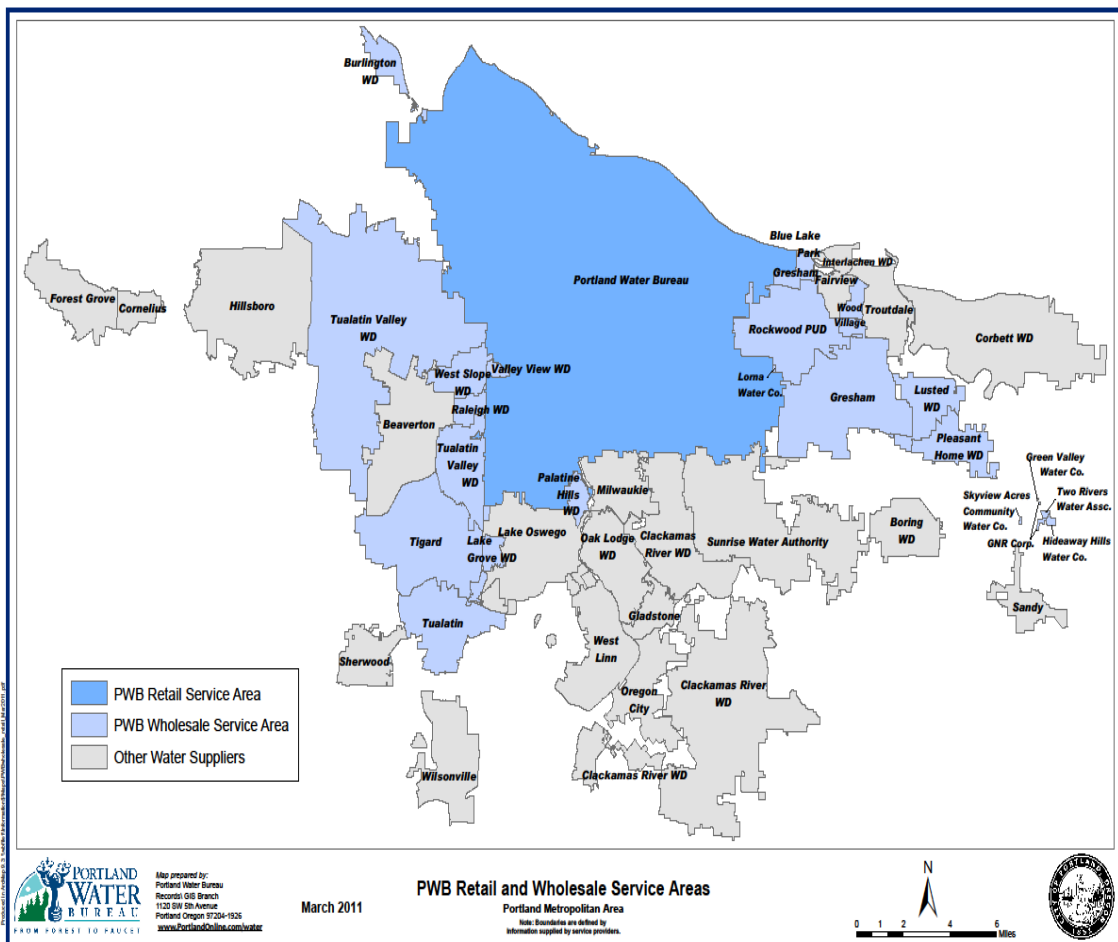
Wholesale customers must give five years notice of non-renewal and can do so at any time during the last five years of their respective contracts. If such notice is issued, the contract will terminate on the next June 30 at least five years but not more than six years from the date of the notice. The agreements are virtually identical except that the 10-year agreement customers pay a higher rate of return to the City in exchange for the ability to elect not to renew their contracts at an earlier date. When some of the 10-year agreements expire, those customers that have access to alternate sources of water supply could opt to utilize those sources and reduce or even eliminate purchases from the City. The major westside wholesale customers who signed 10-year contracts are considering significant alternative sources of supply including the Clackamas River through the City of Lake Oswego and raising Hagg Lake through the Joint Water Commission system. Other 10-year customers without alternate sources may choose to renew their water supply contracts.

The City of Tigard has given notice that it does not intend to renew its water sales agreement with the City. The agreement will terminate effective June 30, 2016. However, the City of Tigard has indicated that it wishes to enter into negotiations with the City to provide a backup source of water in case it needs additional water in the future. Such negotiations have not begun yet. Other 10-year agreement wholesale customers have not provided notification of non-renewal of their agreements. Therefore, these customers are obligated to continue to purchase water through at least June 2017. Under the worst case scenario, if all the 10-year agreement customers that have available alternative supplies were off of the City’s system, the resulting estimated retail rate increase would be as much as 7.5% to ensure that revenues are sufficient to meet debt service coverage planning standards. However, the likely rate impact is less because some or all of the relevant wholesale customers would continue to purchase some water from the City in a desire to diversify their water sources. A map of the Bureau’s retail and wholesale service area is shown below.

Watershed & Service Area



Water System Retail and Wholesale Service Area



Storage and Distribution Operations

The City's Water Distribution System Audit Report of August 2004 recommended improved maintenance levels for the Water System. Beginning in the FY 2006-07 Budget, City Council has approved additional resources for maintenance of the water infrastructure. Continued efforts to maintain the extensive system of reservoirs, pipes, valves, and other components of the Water System is demonstrated by the following improvements: most large valves have been inspected with only two percent determined to be inoperable; all large meters installed prior to 1986 have been replaced; hydrant and main replacement is on-going; conduits have been strengthened and/or buried.

Systemwide Strategies

Asset Management

The Bureau's Asset Management Program is intended to guide the strategic management of physical assets to best support the delivery of identified services. It will allow the Bureau to manage existing assets more effectively, and plan for future needs. This process is guiding decisions as to the effective mix of maintenance, repair, renewal or replacement of the water system components. Condition assessments for many of the Bureau's significant asset classes have been completed or are underway. A risk analysis methodology has been applied to assess the relative risks of asset failure; those assets with the highest risks are then identified for follow-up actions. Benchmarking with best practices is giving the Bureau an opportunity to understand process improvement opportunities. By using asset management strategies, the Bureau is gaining a greater understanding of what aspects of the Water System are most critical to meeting service objectives and a plan to manage the system's investment priorities.

Distribution System Master Plan

In 2007, a Distribution System Master Plan was developed to address the rehabilitation and capital expansion needs of the retail water supply system. The Bureau is also participating in the City's Capital System Plan Process that will lead to an updated Citywide Systems Plan. The City is updating its Comprehensive Plan, a long-range 20-year plan that sets the framework for the physical development of the city. Both the Distribution System Master Plan and the Citywide Systems Plan will be part of this Plan.

Strategy

The Bureau is actively taking steps to address a number of factors that could affect costs to operate and maintain the Water System. Key issues include:

- Continuing implementation of the Habitat Conservation Plan to address the requirements of the federal Clean Water Act and Endangered Species Act (the "ESA") for the listed fish species in the Sandy Basin. (See "CURRENT AND EMERGING REGULATORY ISSUES—Water Supply" herein.)
- Implementing cost-effective programs to reduce demand for potable supplies through conservation.
- Continuing cooperation with DEQ in monitoring sites and reporting data for the CSS Well Field as well as an adopted Wellhead Protection Area Program that applies to Cities of Portland, Gresham, and Fairview, and the development of a monitoring well system and model to accurately forecast yield, assess risks and improve the Bureau's ability to protect the quantity and quality of the groundwater. (See "SOURCES OF SUPPLY—The Columbia South Shore and Powell Valley Well Fields" herein.)

REGULATORY ENVIRONMENT

Operation of the Water System is regulated under the Safe Drinking Water Act (“SDWA”) through the EPA. In Oregon, administration of this Act is delegated to the Oregon Health Authority Drinking Water Program (“OHA”) as the “primacy” agency. OHA also establishes and enforces its own regulations for public water systems (OAR Chapter 333). The City’s primary water source, the Watershed, is located on National Forest System land that is co-managed by the USFS and the City under Public Law, P.L. 95-200 and other relevant laws and regulations applicable to federal lands.

The City is also subject to environmental regulations and statutes administered by the DEQ, which has been delegated enforcement authority by EPA for Clean Water Act issues, and the U.S. Fish and Wildlife Service and the National Marine Fisheries Service (the “NMFS”) for ESA issues.

REGULATORY DEVELOPMENT

In 1974, Congress initially adopted comprehensive legislation for drinking water supplies. Since then, the original legislation has been significantly revised and expanded twice, first in 1986 and again in 1996. Regulations arising from this legislation address a range of health concerns and issues including chemical and microbial contaminants, operator certification, disinfection and treatment practices, source water protection, and consumer information requirements. The first wave of new regulations resulting from the 1996 Amendments to the SDWA are largely in place at this time, but EPA anticipates an ongoing process through much of the early part of this century to fully realize Congress’ intent in the recent revisions. The Water System is currently in compliance with all currently enacted regulations under the SDWA as well as those imposed by OHA.

CURRENT AND EMERGING REGULATORY ISSUES

Water utilities strive to deliver to customers an adequate and reliable supply of high quality water at a reasonable price. Regulations can be significant drivers that influence this effort, although historically regulations have focused more on quality and public health issues than on quantity and availability issues. For several years, Portland has been working to address significant regulations affecting both water quality and supply.

Water Quality

In January 2006, the EPA issued the LT2 Rule. According to the EPA, “The purpose of the LT2 Rule is to reduce illness linked with the contaminant *Cryptosporidium* and other disease-causing microorganisms in drinking water.” Compliance with the LT2 Rule has impacts on two separate parts of the City’s Water System. First, the rule requires that by April 1, 2014, the City provide additional treatment to its Bull Run supply to either remove or inactivate *Cryptosporidium*. The treatment options available to the City for this include filtration (either traditional or newer micro-membrane technology to remove the parasites), ozonation (the introduction of ozone to water to destroy the *Cryptosporidium* oocysts), chlorine dioxide (a chemical disinfectant) or ultraviolet radiation (ultraviolet lights irradiate the *Cryptosporidium* oocysts to prevent them from reproducing which is commonly referred to as inactivation).

Second, the rule requires changes to how open finished drinking water reservoirs are utilized, managed and/or operated. The rule requires that water systems with uncovered finished water reservoirs, like those at Mt. Tabor and Washington Parks, either cover the reservoirs or provide treatment at the outlets of the reservoirs to inactivate *Cryptosporidium*, *Giardia* and other pathogens. *Cryptosporidium* can enter surface water via human and animal fecal material. Surface water sources that are exposed to intensive human activities, pollution and animal wastes are likely to contain the parasite.

Cryptosporidium

During the last two decades, *Cryptosporidium* has emerged as a public health issue, especially for those with suppressed immune systems. *Cryptosporidium* is a micro-organism (protozoan) that can be transmitted through the fecal material of animals and humans and is therefore naturally present in bodies of surface water throughout the world. *Cryptosporidiosis*, the disease caused by *Cryptosporidium*, is not treatable with antibiotics.

The Watershed is far removed from the types of human activities and pollution that are associated with the presence of *Cryptosporidium*. There is no human sewage or cattle exposure to Portland’s source water in the federally protected Watershed. The wildlife that inhabits the Watershed poses the only potential source of *Cryptosporidium*. Because of this, the City only rarely detects *Cryptosporidium* in the Bull Run when it conducts regular water quality monitoring. The City has been

able to maintain the Watershed as one of only a half a dozen large unfiltered surface water supplies in the United States. The 1989 SWTR included filtration avoidance criteria that were based upon the premise that chlorine disinfection of a very high quality water source is adequate to protect public health.

On March 14, 2012, OHA issued a Final Order granting the City a variance to the treatment requirements of the LT2 Rule. In January 2012, prior to the OHA decision to grant the variance, the Bureau received water monitoring results indicating the presence of a single *Cryptosporidium* oocyst at its raw water intake, the entry point to the drinking water system. Additional results showed the presence of three additional oocysts at a sampling location further upstream in the southern portion of the Watershed. These detections in Bull Run water were the first since August 2002. OHA initiated additional public input into its variance decision-making process as a result of the detections. After considering comments from several parties including the Bureau, OHA ultimately issued the variance.

The variance went into effect on April 1, 2012, and will be in effect for ten years if the City is able to meet a set of important conditions designed to protect the health of Portland drinking water customers. These conditions require the Bureau to continue to monitor Bull Run source water for *Cryptosporidium*, maintain all legal protections in the Bull Run, and monitor and manage any potential sources for *Cryptosporidium* contamination in the Watershed. In the event of a first detection of *Cryptosporidium*, the Bureau will increase its monitoring efforts, coordinate with health officials to determine what, if any, impacts the detection may have, and communicate this information to its customers. If a second detection occurs during this period of increased monitoring, OHA has indicated that it will revoke the variance. The design work has been completed, but the capital requirements to construct the UV facility have been removed from the CIP. The current cost to construct a UV treatment plant if needed would be about \$72 million. The FY 2012-13 Requested Budget includes funding for a treatment variance monitoring program that includes robust monitoring and research to meet and exceed the conditions outlined in the Final Order.

Uncovered Finished Drinking Water Reservoirs

A plan by the City explaining the schedule and manner for bringing Portland into compliance with the covered storage requirements of the rule was due to EPA by April 1, 2009. The City submitted a plan to EPA by this deadline and received approval back from EPA. The plan includes constructing an enclosed 50 million gallon storage reservoir at Powell Butte, increasing the storage capacity at Kelly Butte to 25 million gallons, replacing Washington Park Reservoir 3 with a 15 million gallon buried storage tank and constructing transmission pipes and other system improvements. The deadlines in the plan to disconnect Mt. Tabor and Washington Park uncovered reservoirs from the drinking water system are December 31, 2015 and December 31, 2020, respectively.

In August 2011, in response to United States Senator Charles Schumer on behalf of the City of New York, the EPA agreed to review the LT2 regulation as part of its standard regulatory review and also in response to a presidential executive order. In February 2012, the City asked for an opportunity to extend the Bureau's compliance schedule to disconnect the City's uncovered reservoirs pending the EPA's review of the LT2 Rule. The compliance schedule extension would have resulted in the Mt. Tabor and Washington Park reservoirs being disconnected from the drinking water system as of June 30, 2023 and June 30, 2025, respectively. On May 17, 2012, OHA denied the City's request for an extension. The existing regulatory schedule to replace all uncovered storage by December 31, 2020 is therefore in effect and the Bureau is moving forward to complete the necessary projects to comply with this schedule.

Water Supply

Endangered Species Act – Fish

Endangered Species listing decisions since 1998 for anadromous fish in the Lower Columbia River (which includes the Sandy River Basin, its tributaries and the entire Portland-Vancouver metropolitan area) have introduced a challenge and a level of complexity to planning and managing surface water sources. In addition to the fish listings, DEQ designated the lower Bull Run River (below the Headworks) as a "water quality limited stream" under the Clean Water Act (the "CWA") on December 1, 1998. A map of the Sandy River Basin is shown on the following page.

The Bureau anticipated the potential for listing of one or more anadromous fish species and the potential for a CWA 303 (d) listing for temperature and began conducting assessment work in 1994. The Bureau also recognized early that many parties affect habitat conditions in the Sandy Basin and that a collaborative, basin-wide approach to habitat restoration and enhancement would be necessary to create conditions conducive to healthy fish populations. To facilitate collaborative planning and the implementation of fish habitat protection and enhancement measures in the basin, the Bureau took a lead role in establishing a partnership of

public and private organizations with a common objective of salmon and trout habitat conservation and restoration in the Sandy River Basin. This partnership, now known as the Sandy River Basin Partners was a strategic step to help define the biological and institutional context for a regulatory compliance plan for the Bull Run water supply.

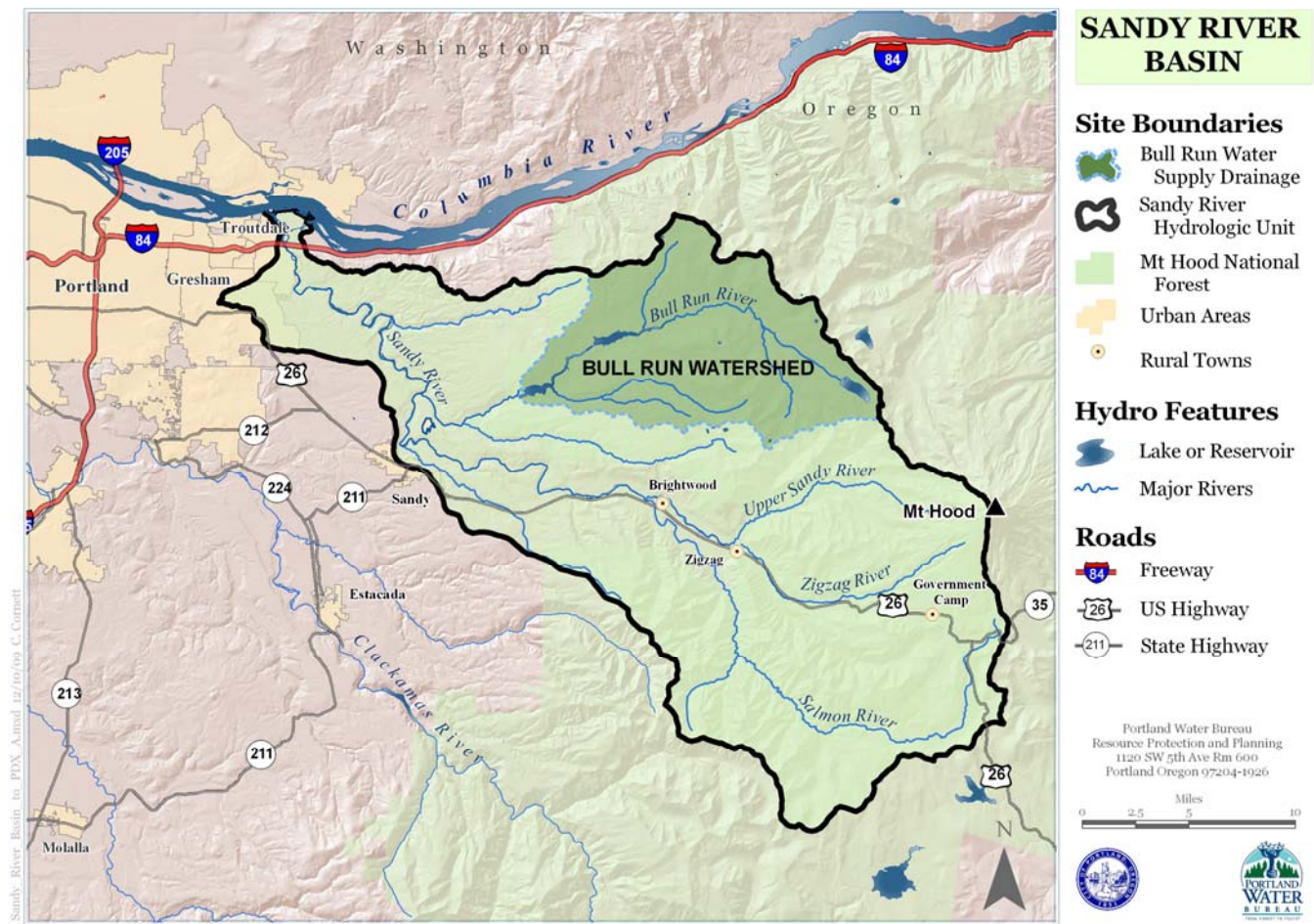
In 2004, the City and the Partners signed an Agreement in Principle defining a framework for which the City could develop a detailed compliance plan. The City then proceeded to create a comprehensive Habitat Conservation Plan (“HCP”) as provided for in Section 10 of the ESA. The HCP has been designed to meet the City’s obligations for the Bull Run system under the ESA and the CWA. Public review of the draft HCP and the federally required draft Environmental Impact Statement (“EIS”) was completed on May 27, 2008. The plan was approved and an Incidental Take Permit was issued by the NMFS in April, 2009. This permit provides reasonable regulatory certainty for the Bureau to operate its water supply facilities in the Watershed in compliance with the federal ESA and CWA for the next 50 years. Implementation of the 49 measures included in the Bull Run HCP is monitored and reported by the Bureau annually to the NMFS.

Portland Harbor Sediments

Portland Harbor was listed as a federal Superfund site in December 2000. The Portland Harbor Superfund investigation is currently focused on a stretch of the Willamette River from approximately River Mile 2 to River Mile 12. The EPA identified the City as one of the parties potentially responsible for environmental cleanup and restoration of natural resource damages in Portland Harbor. The City operates storm and sanitary conveyances that discharge within the Portland Harbor investigation area and owns property within the area. Since 2001, the City has contributed over \$20 million towards the investigation of contamination in Portland Harbor.

The Bureau owns land and operates facilities within the Portland Harbor Investigation area. The Bureau has responded to information requests regarding some of its properties and facilities.

At this time, the City’s liability has not been established. Overall City responsibility or specific Bureau potential responsibility for the costs of investigation and cleanup are unknown. The cost of the remedy will be estimated when the EPA selects a remedy in a Record of Decision (“ROD”), which is expected no earlier than the end of 2014. Total natural resource damage costs have not been quantified by the Natural Resource Trustees, a council formed to develop and coordinate damage assessment activities at Portland Harbor and to plan for the restoration of natural resources. When made, these estimates will not include an evaluation of any individual party’s share of those costs. The City is participating in an alternative dispute resolution process to recover investigation costs already expended by the City and allocate the total costs of the remedy and investigation among the more than 150 potentially responsible parties currently identified. The City is also participating in a dispute resolution process to allocate natural resource damage liabilities. These non-judicial processes are expected to take several more years to complete after the issuance of the ROD. The City believes that an estimate of maximum City exposure of the Portland Harbor cleanup cannot be made but could be material to the period in which it is realized. The Bureau’s exposure would only be a small part of any final City-wide obligations.



ORGANIZATION AND STAFF OF THE PORTLAND WATER BUREAU

BUREAU ORGANIZATION

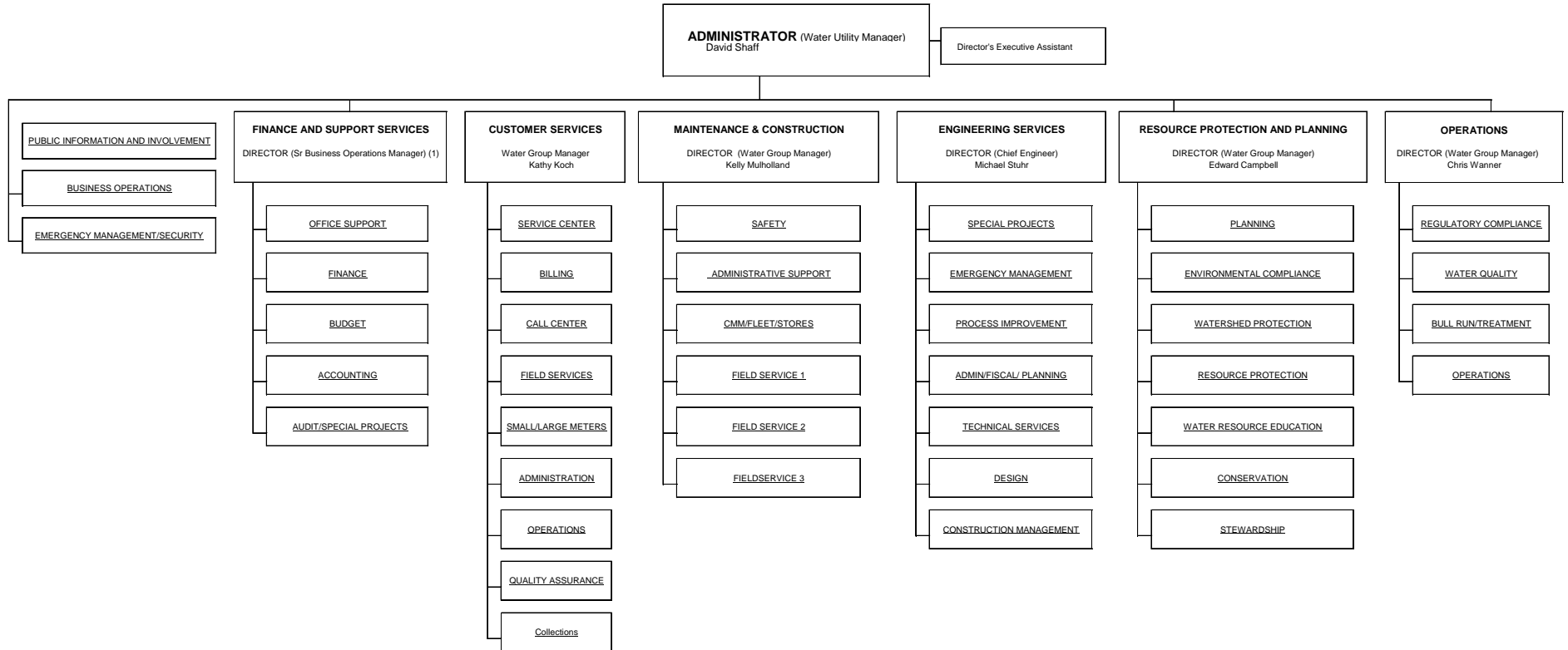
The Bureau's FY 2011-12 budgeted work force of 616 full-time positions, along with six limited-term, full and part-time positions and four part-time positions, is managed by a ten person Management Team led by the Administrator. The Bureau's Management Team is composed of the Administrator, six Work Group Directors, Security Manager, Public Information Manager, and Water Administrative Manager. The Bureau's internal management structure combines the efforts of the Administrator's Office and six Work Groups including Finance and Support Services, Customer Services, Maintenance and Construction, Engineering, Resource Protection and Planning, and Operations. At times, consultants are used for specific projects that require expertise or staffing beyond the Bureau's capability. Certain administrative and support functions are provided by other City departments and bureaus on a reimbursable basis. Since Summer 2005, the Bureau has reported to City Commissioner Randy Leonard.

The 616 full-time positions (and 10 limited-term or part-time positions) of the Bureau are distributed as follows:

- Administrator's Office – 48 positions, 1 part-time
- Finance and Support Services – 21 positions, 1 part-time
- Customer Services – 112 positions, 1.5 part-time
- Maintenance and Construction – 174 positions, 2 limited-term
- Engineering – 134 positions, 1 part-time, 0.5 part-time, 4 limited-term
- Resource Protection and Planning – 25 positions
- Operations – 102 positions

The chart on the following page shows the Bureau's organization as of March 1, 2012.

PORTLAND WATER BUREAU



Notes:

(1) Effective July 9, 2012, Cecelia Huynh is serving as Acting Director of Finance and Support Services.

Source: City of Portland.

ADMINISTRATOR'S OFFICE AND WORK GROUPS

The Administrator's Office is responsible for policy planning, leadership, direction, and operation of the Bureau. The Administrator's Office also manages security for the distribution system, property management, organization development, human resources management, public information/involvement, long-range planning, government and community relations, legislative activities, and liaison with the Commissioner-in-Charge and City Council. Property management responsibilities also include grounds maintenance and operation and maintenance of the drinking fountains.

The Finance and Support Services Group provides financial planning, rate setting, budgeting, accounting, payroll, auditing, financial analyses, and fiscal monitoring functions for the Bureau. It also provides clerical support for Bureau staff in the Portland Building. This group manages the interfaces to City financial and personnel systems, and other Bureau-specific software systems.

The Customer Services Group is responsible for managing billing, customer accounts, answering customer inquiries, processing customer payments, reading meters and providing water service inspections. This group is also responsible for the repair, maintenance and replacement of meters. It also includes a quality assurance group.

The Maintenance and Construction Group is responsible for repair, operation, and maintenance of the distribution system. Installation, operation, and maintenance functions related to mains, services, valves, hydrants, and leak detection are performed by this group. This work includes direct services and related support for control valves, carpentry, purchasing and stores operation, and loss control programs. This group manages the Bureau's two apprentice programs. The emergency crew provides response for outside normal work hour requirements, including main breaks and other emergency responses.

The Engineering Group is responsible for planning, design, and construction of the Water System. In addition, this group serves as customer liaison for new service installation, drafting (including geographic information system), surveying, inspecting, and maintaining records on distribution system improvements. This group manages the Bureau's emergency management program. This group also has responsibility for developing facility standards, asset management, contract management, and developing and managing the Bureau's CIP. Administrative oversight of the Hydroelectric Power function is conducted within this group.

The Resource Protection and Planning Group is responsible for coordination with federal, state and local partners to protect the quality of both of Portland's drinking water sources, invasive species mitigation and environmental compliance. Responsibilities include addressing legislative and regulatory issues and performing research, comprehensive planning on major issues, supply and demand analysis, and coordination of the Regional Water Providers Consortium. This Bureau work group is also responsible for the Bureau's business, residential and multifamily water efficiency programs, water resource education programs and Bureau sustainability efforts.

The Operations Group is responsible for the operation and maintenance of water supply and treatment from the Watershed and the Columbia South Shore and Powell Valley Well Fields. This group operates and maintains the conduits, terminal storage reservoirs, tanks, pump stations, water treatment facilities, pressure regulators, an accredited Laboratory, and the Water Control Center. Work responsibilities include water quality protection, regulatory compliance, laboratory services, system metering, and addressing water quality customer complaints.

MANAGEMENT PERSONNEL

The following are brief biographies of key management personnel.

Randy Leonard, Commissioner of Public Safety, is serving his third term as City Commissioner. Since July 2005, the Bureau has reported to Commissioner Leonard. His responsibilities also include management of the Bureau of Fire and Rescue. Commissioner Leonard served in Portland Fire and Rescue for 25 years and served nine years in the Oregon State Legislature. Commissioner Leonard was born and raised in Portland, Oregon. He received a Bachelor's degree in History from Portland State University.

David G. Shaff, Administrator, is responsible for the ongoing operation of the Bureau, as well as security, long-range planning, organization development, facilitation of regional partnerships, and coordination with governments and regulators. Mr. Shaff began working for the City in 1978. He worked for the first 25 years in the Bureau of Human Resources, primarily in Labor Relations. While working in Labor Relations, Mr. Shaff was responsible for negotiating each of the City's collective bargaining agreements multiple times and ended his tenure there as the City's Labor Relations Manager in 2003. He joined Commissioner Leonard's staff in 2004 until he was appointed Interim Administrator of the Bureau in July 2005 and was permanently appointed in

July 2006. Mr. Shaff has a Bachelor of Arts degree in Political Science and German from Lewis and Clark College. He received his J.D. from Lewis and Clark Law School in 1983.

Kathryn Koch, Director of Customer Services, is responsible for the overall management of customer services including account services, billing and collection, meter reading, meter maintenance and repair, and data processing. Ms. Koch joined the Bureau in 1990. She serves as a member of the National American Water Works Association Customer Service Committee. Ms. Koch holds a Bachelor of Arts degree in English Literature from Pacific University in Forest Grove, Oregon.

Ty Kovatch, Director of Maintenance and Construction, is responsible for overall management of maintenance, construction and support functions, including repair and maintenance of the distribution system, maintenance management system, purchasing and stores operation, fleet, and apprentice programs. Mr. Kovatch joined the City in 2002 where he served as Chief of Staff to Commissioner Randy Leonard, who has overseen the Portland Water Bureau since 2005. Mr. Kovatch also served as Interim Director of Portland's construction and land use permitting for the Bureau of Development Services, and joined the Portland Water Bureau in 2012. He has a Bachelor of Arts degree in Political Science from Pacific University.

Michael Stuhr, Director of Engineering, is responsible for overall management of engineering, its support functions, and administration of the CIP including planning, design, and construction as well as emergency management. Mr. Stuhr joined the Bureau in 2003 and was the Director of Maintenance and Construction during his first two years. Mr. Stuhr has over 30 years experience leading and managing a wide variety of engineering activities and more than 10 years as a senior executive with state, federal, and international experience managing multimillion dollar environmental, water resource, and facilities engineering programs. He is a registered professional Civil Engineer. Mr. Stuhr has a Bachelor of Science degree in Engineering from the United States Military Academy, a Master of Science degree in Geotechnical Engineering from Stanford University, and a Master of Business Administration degree from the University of California, Davis.

Edward Campbell, Director of Resource Protection and Planning, is responsible for resource protection and planning, including coordination with federal, state and local partners on source protection efforts for both of the Bureau's drinking water sources, long-term planning and policy development work, compliance with environmental regulations, and leading the Bureau's regulatory compliance efforts for the surface water treatment requirements of the LT2 Rule and the federal Endangered Species Act. He joined the Bureau in 2004 as an assistant to the Administrator and was selected to lead the Resource Protection and Planning Group in August 2005. Prior to coming to the Bureau, Mr. Campbell served as a senior policy advisor, sustainability coordinator and chief of staff to City Commissioner Dan Saltzman and before that as communications director for Multnomah County Chair Beverly Stein. Mr. Campbell holds a Bachelor of Arts degree in English Literature from the University of Southern California and a Master of Arts degree in English Literature from the University of Virginia.

Cecelia Huynh, Acting Director of Finance and Support Services, manages financial planning, budgeting, rate setting, accounting, and support services. Ms. Huynh joined the Bureau in 1990 and has been the Finance Manager since 2008. Ms. Huynh has a Bachelor of Science degree in Finance and Management from Portland State University, Oregon.

Chris Wanner, Director of Operations, is responsible for management of operations and maintenance of surface and groundwater supplies, including treatment, transmission, storage, distribution, pump stations and tanks, system analysis, and the SCADA system. Since 1984 Mr. Wanner has held various Bureau positions. He worked in various capacities in the Bureau's Incident Command System including Operations and Incident Commander. Mr. Wanner was appointed as Director of Operations in 2005. He has State of Oregon certifications at the highest levels for both Water Distribution (WD4) and Water Treatment (WT4) and is a veteran of the United States Army. He has Associate degrees in Computer Technologies and Electronic Engineering from Portland Community College and maintains a State of Oregon electrical license.

BUREAU PROGRAMS

The Bureau's work is organized within seven Bureau Programs. The seven Bureau Programs are as follows.

- The Supply Program is responsible for providing the water that all customers use in the Portland service area, including retail and wholesale customers. The provision of water in the quantities desired by customers is a key portion of the mission of the Bureau. This program includes the activities related to the City's primary Watershed supply, as well as the secondary water supply, the CSS Well Field and Powell Valley wells.
- The Treatment Program is responsible for the ongoing water treatment operations required to meet or exceed federal and state water quality standards. This program currently includes the treatment processes at Headworks, Lusted Hill, and the CSS Well Field facilities.

- The Transmission and Terminal Storage Program is responsible for the conveyance of finished water from the supply sources to the City's retail distribution system or to the service delivery points for wholesale customers. This program also includes the major storage reservoirs, including terminal storage at Powell Butte, Mt. Tabor and Washington Park.
- The Distribution Program is primarily for the conveyance of finished water through the distribution mains from the terminal storage reservoirs to the retail customers. This work includes maintenance of the distribution mains, pump stations and tanks, meters, services, hydrants, valves, gates, fountains, and field support. These various segments of the program cover a wide variety of purposes, such as tanks to store water and maintain system pressures, meters to accurately record usage for billing, hydrants for fire protection and for line flushing, and valves to alter or stop water flows under various circumstances such as line breaks or fire suppression.
- The Regulatory Compliance Program is responsible for meeting or surpassing all federal and state regulatory requirements for water quality as well as any other regulations related to the ownership or operation of the water system. Other regulatory requirements include compliance with ESA, CWA, and various monitoring requirements. Laboratory services are included within this program.
- The Customer Service Program provides services for customers other than the direct supply of water. It includes customer billing, collection, call center, meter reading and inspection. This program also includes water efficiency, security, permits, and maintenance of decorative fountains and grounds for Bureau properties.
- The Administration and Support Program supports other Bureau programs including planning, financial support, data management, and human resource functions. The purpose of this program is to help ensure that the needs of the other programs are met and that City-wide information and services are provided as needed for the direct-service programs to operate effectively.

CAPITAL IMPROVEMENT PLAN

Proceeds of the 2012 Series A Bonds will be used to fund a portion of the costs of the capital improvement plan ("CIP") of the Water System, including additions, improvements, and capital equipment that facilitate supply, treatment, transmission, storage, pumping, distribution, regulatory compliance, customer service and support.

Funding for the CIP is through a combination of cash flow from rates, proceeds from borrowings, project reimbursements, System Development Charges ("SDC"), and interest earnings. The size and timing of future bond issues is determined through analysis of projected capital requirements and Water System financial resources.

THE CAPITAL PLANNING PROCESS

The Bureau focuses its efforts on regulatory compliance elements, improving the condition of its aging infrastructure, and addressing operations and maintenance needs. The CIP addresses longer term infrastructure replacement and maintenance, while still responding to the more immediate short-term water system infrastructure needs identified through past planning and analysis.

The CIP is the implementation plan for water system improvements. It is updated annually and is the budget and policy tool for the bureau and City Council to direct capital work. The CIP identifies in detail specific projects, their budgets, phasing or components, and the relationship among capital projects.

The CIP process is a bureau-wide collaborative effort of engineers, operations and maintenance managers, financial analysts, and policy staff. Together they bring to bear planning analysis, engineering standards, operational, technical, regulatory and fiscal expertise, and an understanding of external factors affecting bureau operations.

The CIP is reviewed by the Budget Advisory Committee as part of the Bureau's budget request. The Budget Advisory Committee is comprised of Bureau management and staff, citizen volunteers, and specific stakeholder group representatives, such as large commercial water users. The CIP budget priorities focus on large distribution, storage and environmental regulatory compliance projects to address vulnerability, and the HCP. Other priorities include maintaining, improving or replacing aging infrastructure that is essential to the long term health of the Water System. The bureau's capital planning process is also guided by values including, but not limited to: public health and safety, reliability, reducing vulnerability, minimizing environmental impact, and affordable water rates.

A distribution system master plan updated in June 2007 is the planning resource for many projects. The focus of the plan was the distribution backbone system that distributes water from Powell Butte Reservoir to terminal storage at Mount Tabor and Washington Park and to the distribution system service areas. The plan described service goals, project priorities, hydraulic model upgrades, condition assessments, and asset management recommendations.

CAPITAL PROGRAMS AND PROJECTS

The CIP is summarized within the following six Bureau programs with key projects identified:

- **Customer Service:** The Bureau's participation in the City Emergency Coordination Center is the primary project included within this program. Bureau security staff will operate from this location with the Portland Bureau of Emergency Management. In the event of an emergency, all bureaus and the City Council will work from this site.
- **Distribution:** Approximately \$223 million of the CIP is for improvements to the distribution system. Of the total, about \$72 million is to be used for direct water line replacement projects, including work initiated by other bureaus and agencies, as well as replacement of the oldest or most deteriorated portions of the distribution system. About \$46 million is to continue rehabilitation of the Interstate maintenance building. There is \$28 million for the Willamette River Crossing Project. Almost \$20 million is for pump stations and tanks. Other improvements include distribution pipelines, services, meters, hydrants, valves, and field support.
- **Regulatory Compliance:** More than \$39 million has been planned for compliance with EPA, principally the Dam 2 Tower Improvements.
- **Supply:** This program includes projects to improve existing facilities and roads in the Watershed and improvements to the groundwater basins. Groundwater system projects are (1) rehabilitating well pumps and motors; (2) maintaining and repairing wells that produce excessive sand and changing the pump settings in selected wells to optimize well performance; and (3)

installing and equipping additional well head protection monitoring wells to protect the investment in well field infrastructure and ensure the quality of the groundwater produced by the system.

- **Transmission and Terminal Storage:** The major projects in this program includes \$98 million to continue construction of the 50 million gallon water storage tank at Powell Butte and \$110 million for other enclosed storage including Kelly Butte reservoir and Washington Park reservoir. (See “REGULATORY ENVIRONMENT—CURRENT AND EMERGING REGULATORY ISSUES—Water Quality—Uncovered Finished Drinking Water Reservoirs” herein.) Also included is \$27 million for other conduit and transmission main projects.
- **Treatment:** The only project in this program is the Headworks Flow Meters to regulate chemical additions to the system in compliance with drinking water regulations. The UV treatment plan project was removed from the CIP when OHA issued a Final Order granting the City a treatment variance. (See “REGULATORY ENVIRONMENT—CURRENT AND EMERGING REGULATORY ISSUES—Water Quality—*Cryptosporidium* and Treatment Options” herein.)

CAPITAL IMPROVEMENT PLAN RESOURCES AND REQUIREMENTS

Capital costs during the forecast period are contained within six programs in the CIP. Summary costs for six of the Bureau Programs are shown in Table 6. Table 7 shows Water Construction Fund Sources and Uses of Funds for the forecast period from FY 2012-13 through FY 2016-17. The Bureau’s direct capital requirement forecast for the Water System totals \$526.2 million during the five-year period FY 2012-13 through FY 2016-17. During the same period, resources supporting all related capital construction include cash-financed capital funding from rate revenues of \$147.4 million, capital charges of \$33.2 million, interest income of \$1.4 million, and \$476.5 million of proceeds from borrowings. Bond proceeds (net of reserves) totaling approximately \$476.5 million are anticipated in FYs 2012-13, 2013-14 and 2015-16.

As discussed above, the CIP is revised and updated annually. Spending plans are subject to change as the CIP is updated.

Table 6
CITY OF PORTLAND, OREGON
Water Bureau
Forecast Direct Capital Requirements (1)

Fiscal Year Ending June 30	2012-13	2013-14	2014-15	2015-16	2016-17	Total
(In thousands of dollars)						
BUREAU PROGRAM (2)						
Customer Service	\$6,100	\$0	\$0	\$250	\$500	\$6,850
Distribution	45,590	43,865	50,922	31,105	51,645	223,127
Regulatory Compliance	22,800	4,500	1,600	9,000	2,000	39,900
Supply	1,030	430	4,510	3,320	3,570	12,860
Transmission and Terminal Storage	58,750	79,625	51,050	30,450	21,000	240,875
Treatment	100	2,500	0	0	0	2,600
TOTAL BY BUREAU PROGRAM	\$134,370	\$130,920	\$108,082	\$74,125	\$78,715	\$526,212

Notes:

(1) In current dollars based on FY 2012-13 Approved Budget.

(2) Forecast capital costs do not include expensed capital studies or Engineering Operating and Maintenance costs.

Source: City of Portland. Totals may not add due to rounding.

Table 7
CITY OF PORTLAND, OREGON
Water Bureau
Water Construction Fund
Forecast Sources and Uses of Funds (1)

Fiscal Year Ending June 30	2012-13	2013-14	2014-15	2015-16	2016-17
(In thousands of dollars)					
BEGINNING BALANCE (cash)	\$5,149	\$76,438	\$107,586	\$13,517	\$78,275
RECEIPTS					
Capital Charges	\$5,560	\$5,942	\$6,671	\$7,268	\$7,727
Bond Proceeds	198,211	154,839	0	123,398	0
Transfer from Water Fund	17,895	24,230	32,455	34,960	37,860
Interest Income	182	292	333	374	275
TOTAL RECEIPTS	221,849	185,302	39,459	166,000	45,862
TOTAL SOURCES OF FUNDS	\$226,997	\$261,740	\$147,045	\$179,517	\$124,137
EXPENDITURES					
Capital Reimbursement to Water Fund	\$150,394	\$153,888	\$133,220	\$100,893	\$108,118
Transfer to Water Bond Sinking Fund	165	267	308	349	250
TOTAL EXPENDITURES	150,559	154,154	133,528	101,242	108,368
ENDING BALANCE	76,438	107,586	13,517	78,275	15,769
TOTAL USES OF FUNDS	\$226,997	\$261,740	\$147,045	\$179,517	\$124,137

Notes:

(1) Based on FY 2012-13 Approved Budget.

Source: City of Portland. Totals may not add due to rounding.

FINANCIAL POLICIES AND PLANNING STANDARDS

FIVE-YEAR FINANCIAL PLAN

The Bureau annually prepares a five-year financial plan. The financial plan includes both operating and capital expenditures and expected rates for each year of the five-year forecast period. The financial plan reflects the financial implications of the Bureau's priorities and service levels.

Key policy objectives in developing the Bureau's financial plan include:

- Providing for sufficient annual funding of operating, maintenance, and capital programs approved by City Council;
- Providing for rates and charges to customers that are equitably based on generally accepted cost-of-service principles and as directed by City Council;
- Achieving a balance between financial health, operational effectiveness, infrastructure condition, effective management, rate affordability, and a high quality workforce;
- Optimizing capital financing strategies; and
- Ensuring the maintenance of appropriate and adequate cash balances (operating, construction, and rate stabilization) consistent with City policies, bond covenants, and industry standards.

FINANCIAL OPERATIONS POLICIES

Operating and Construction Cash Reserves

The Bureau plans for a minimum fiscal year-end operating cash reserve of \$15.0 million. The Bureau also plans for a construction cash reserve of \$5.0 million or one-half of annual debt-financed capital expenditures, whichever is less. Bond sales are scheduled every one or two years when the balance in the Construction Fund approaches this level.

Rate Stabilization Account

With the issuance of Second Lien Water System Revenue Bonds in 2006, the Bureau established a Rate Stabilization Account within the Water Operating Fund to smooth rate increases over the financial planning period and beyond. This smoothing is one of the Bureau's key financial planning objectives and is aimed at maintaining financial stability and predictability. It also helps ensure that debt service coverage meets planning standards. (See "POLICIES AND PLANS GOVERNING BOND ISSUES" below.) The Bureau began funding the Rate Stabilization Account beginning in FY 2006-07, and plans to maintain a minimum balance of \$2.0 million as defined in the Master Second Lien Water System Revenue Bond Declaration. This minimum Rate Stabilization Account balance also serves as an available useable reserve for unforeseen requirements. The FY 2010-11 ending balance in the Rate Stabilization Account is \$18.4 million. (See "FINANCIAL PROJECTIONS-USE OF RATE STABILIZATION ACCOUNT-Table 17" herein.)

POLICIES AND PLANS GOVERNING BOND ISSUES

Since 1993, the Bureau has regularly funded a portion of its CIP through the issuance of revenue bonds. Though not required by bond covenants, the Bureau's planning standard is to set rates such that Net Revenues provide at least 1.90 times debt service coverage on First Lien Bonds. Additionally, the Bureau will maintain a planning standard that results in Stabilized Net Revenues providing at least 1.75 times coverage on the Combined Annual Debt Service (as defined in the Master Second Lien Water Revenue Bond Declaration) for both First and Second Lien Bonds. These standards exceed the debt service coverage required by the bond covenants.

WATER SYSTEM OPERATING AND FINANCIAL INFORMATION

OVERVIEW

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

FUND ACCOUNTING SYSTEM

The Bureau's financial reporting system is organized into three separate funds. The funds and their financial reporting purpose are described as follows:

Water Operating Fund. This fund serves as the operating fund of the Bureau and, with the exception of debt service, all expenditures are made from this fund for operation, maintenance and capital assets. Receipts from the sale of water are the primary source of revenue for the Water Operating Fund. The cash flow in this fund determines the need for rate increases. The Rate Stabilization Account is within the Operating Fund.

Water Construction Fund. By City Charter stipulation, this fund is the recipient of proceeds from bond sales. Other sources of revenue include reimbursements for capital expenditures, such as main extensions and service installations, system development charges and sale of assets. Also, a portion of the water sales revenues is transferred to this fund to finance routine system repair and replacement. The Water Construction Fund reimburses the Water Operating Fund for capital asset requirements including capitalized overhead, capitalized interest, and the cost of issuing bonds.

Water Bond Sinking Fund. This fund provides for the repayment of bonded debt and interest. The revenue bond reserve accounts are also maintained in the Sinking Fund. The source of revenue for this fund is a transfer from the Water Operating Fund, reduced by interest earnings on fund balances and a transfer from the Water Construction Fund of interest earnings on bond proceeds.

These three funds enable the Bureau to segregate resources for specific uses and ensure that reserves are not used to supplement daily operating needs. Maintenance of the fiscal integrity of each fund is a key objective of the Bureau's financial planning and analysis efforts. The Bureau's fund structure provides for the accounting and control of expenditures and differs from the account structure described in the First Lien Bond Ordinance and the Master Second Lien Water System Revenue Bond Declaration. The accounts described in the First Lien Bond Ordinance and the Master Second Lien Water System Revenue Bond Declaration have been established to identify priority claims on Water System revenues and are accounted for separately.

The Water Growth Impact Trust Fund was closed at the end of FY 2008-09. This fund was used to accumulate resources earmarked for future requirements resulting from growth in demand by wholesale customers. Since 1995, wholesale contributions were suspended with the deletion of the growth section in the 1980 25-year wholesale agreements. In FY 2007-08, the Bureau Operating Fund refunded to the respective wholesale customers the amounts paid into this fund, including interest. On July 1, 2008, the Bureau transferred to the Operating Fund the remaining fund balance of about \$1.9 million.

AUDITS

Moss Adams LLP conducted audits of the financial statements for the City of Portland and related entities from FY 2002-03 through FY 2010-11. Appendix B, "EXCERPTS OF AUDITED FINANCIAL STATEMENTS," contains audited financial statements of the Water Fund. 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=26053>. The City's web site is listed for reference only, and is not part of this Official Statement.

HISTORICAL OPERATING RESULTS

The Bureau has collected Water System revenues sufficient to provide for all operating expenses, to pay debt service, and to meet debt service coverage requirements on its outstanding Water System revenue bonds and general obligation water bonds. In addition to meeting these requirements, the Bureau provides cash financing of its capital program by setting current rates and charges at a level sufficient to meet planned debt service coverage targets.

The Bureau continues to maintain a target minimum debt service coverage ratio of 1.90 on First Lien Bonds (1.25 per bond covenant). With the issuance of the Second Lien Bonds in September 2006, a new minimum debt service coverage ratio was

implemented for combined first and second lien bond debt service of 1.75 times using Stabilized Net Revenues as defined in the Master Second Lien Water System Revenue Bond Declaration. (The Master Second Lien Water System Revenue Bond Declaration requires 1.10 times debt service coverage using Stabilized Net Revenues.) Also, the Bureau extended its term of debt from 20 to 25 years. The Bureau expects that future new money issues (first or second lien) will be issued as 25 year bonds.

Historical operating results of the Bureau's financial operations are shown in the following table. Between FY 2006-07 and FY 2010-11, Gross Revenues grew at a compound annual rate of 3.5 percent. Gross revenues in FY 2007-08 remained unchanged from FY 2006-07 because of a reduction in water demand. Gross revenues in FY 2009-10 and FY 2010-11 increased primarily due to the rate change for water sales and increased delinquency receipts. Operating Expenses during the five-year period averaged \$63.0 million.

Over the last five years, Net Revenues have provided from 2.45 times to 3.84 times debt service coverage on First Lien Bonds. Debt service coverage fell to its lowest level in FY 2010-11 due to higher debt service requirements. The Bureau transferred \$3.29 million to the Rate Stabilization Account in FY 2010-11. Stabilized Net Revenues provided 1.91 times coverage on the combined annual debt service for both First and Second Lien Bonds in FY 2010-11.

Audited statements of revenues, expenses, and changes in fund net assets, the statement of net assets, and the statement of cash flows for the Water Fund are presented in the Appendix.

Table 8
CITY OF PORTLAND, OREGON
Water Bureau
Historical Operating Results

Fiscal Year Ending June 30	2006-07	2007-08	2008-09	2009-10	2010-11
(in thousands of dollars)					
GROSS REVENUES (1)					
Operating Revenues	\$89,223	\$89,261	\$94,163	\$107,333	\$112,191
Interest Earnings	3,993	2,786	2,620	950	650
Capital Charges	10,052	11,214	8,650	5,405	5,859
Total Gross Revenues	\$103,268	\$103,261	\$105,433	\$113,688	\$118,700
OPERATING EXPENSES (1) (2)					
Operating Expenses	\$55,640	\$64,430	\$64,275	\$66,159	\$64,373
NET REVENUES	\$47,628	\$38,831	\$41,158	\$47,529	\$54,327
DEBT SERVICE					
First Lien Bonds	\$12,403	\$12,267	\$14,993	\$17,667	\$22,143
Second Lien Bonds	\$1,619	\$4,550	\$4,547	\$4,551	\$4,546
G.O. Bonds (3)	\$1,618	\$1,620	\$1,621	\$1,624	\$1,617
DEBT SERVICE COVERAGE (x)					
First Lien Bonds	3.84	3.17	2.75	2.69	2.45
First and Second Lien Bonds	3.40	2.31	2.11	2.14	2.04
All Debt	3.05	2.11	1.94	1.99	1.92
COVERAGE BASED ON STABILIZED NET REVENUES					
NET REVENUES					
Less: Transfers to Rate Stabilization Account	(\$2,000)	(\$3,500)	(\$2,250)	(\$7,400)	(\$3,290)
Plus: Transfers from Rate Stabilization Account	0	0	0	0	0
STABILIZED NET REVENUES	\$45,628	\$35,331	\$38,908	\$40,129	\$51,037
DEBT SERVICE COVERAGE (x)					
First and Second Lien Bonds	3.25	2.10	1.99	1.81	1.91

Notes:

- (1) As defined in First Lien Bond Ordinance.
- (2) Operating expenses include the Bureau's share of the City's Post-Employment Retirement Benefits (OPEB) starting in FY 2007-08. There are no OPEB reporting requirements under Government Accounting Standards Board (GASB) rules prior to FY 2007-08.
- (3) There are no outstanding General Obligation Bonds subsequent to the final principal payment on October 1, 2010.

Source: City of Portland. Totals may not add due to rounding.

WATER SYSTEM CUSTOMERS AND DEMAND

The Bureau has both retail and wholesale water customers. Wholesale customers pay based on their use of the system in accordance with their contracts. Retail customers pay for the residual requirements.

The Bureau currently provides water on a wholesale contract basis to 19 water purveyors, which include cities, water districts, and private water companies. Annual water sales to these customers account for about 15 percent of annual water sale revenues, and about 42 percent of annual water demand. In 2006 and 2007, the City entered into new wholesale contracts with 13 cities and public water districts. These contracts account for over 99 percent of wholesale water sales. Five of the 13 wholesale contracts have a 10-year term and eight wholesale contracts have a 20-year term. The remaining wholesale contracts are with six private water companies, whose contracts renew every five years. (See “THE WATER SYSTEM – WATER SYSTEM OPERATIONS-Wholesale Water Sales Agreements”, herein.)

Under the wholesale water sales agreements, wholesale rates are determined according to a complex set of variables and methodologies. Each wholesale customer’s rate is determined based on some variables that are specific to that customer, as well as some variables that apply to all the wholesale customers. Each wholesale customer has an annual guaranteed purchase quantity (i.e., “take or pay” quantity) that equals or may exceed the prior year’s guaranteed quantity, but may not be less than the prior quantity without permission of the Bureau. Each customer also selects its seasonal and maximum day peak demand quantities. Costs are allocated to each wholesale customer based on these various demand amounts and on the specific water system assets that the respective wholesale customers use. Other variables impacting all wholesale customers are the Bureau’s budget and an index of municipal bond rates. The rates are then calculated for each wholesale customer on an annual basis.

The amount of revenue to be generated from wholesale customers under these contracts is guaranteed to be about \$16.4 million in FY 2011-12 based on the take-or-pay provisions in the contracts, and the guaranteed water quantities requested by each wholesale customer.

The table below shows the guaranteed purchase quantities, percent of sales, rates, and guaranteed revenues from each wholesale customer for FY 2011-12.

Table 9
CITY OF PORTLAND, OREGON
Water Bureau
Wholesale Customers' Demand and Sales

Wholesale Customer	Contract Expires	FY 2011-12 Guaranteed Purchase Quantities (million ccf)	FY 2011-12 Rate(1)	Guaranteed Revenue	% of Total Wholesale Sales
Tualatin Valley Water District (2)	07/01/17	6.4	\$0.922	\$5,920,768	36%
Rockwood Water PUD	07/01/26	3.8	\$0.524	\$1,994,423	12%
Gresham, City of	07/01/26	3.7	\$0.545	\$1,994,571	12%
Tualatin, City of (2)	07/01/17	2.1	\$0.818	\$1,756,292	11%
Tigard, City of (3)	07/01/16	2.0	\$1.402	\$2,736,527	17%
West Slope Water District	07/01/26	0.7	\$1.290	\$881,274	5%
Raleigh Water District	07/01/26	0.3	\$0.762	\$260,281	2%
Palatine Hill Water District	07/01/27	0.2	\$1.642	\$344,536	2%
Lake Grove Water District (2)	07/01/17	0.1	\$1.162	\$170,104	1%
Valley View Water District	07/01/26	0.1	\$1.676	\$132,492	1%
Pleasant Home Water District (2)	07/01/17	0.1	\$0.823	\$80,319	<1%
Lusted Water District	07/01/26	0.1	\$0.923	\$81,070	<1%
Burlington Water District	07/01/26	< 0.1	\$0.999	\$26,814	<1%
Six private water companies (4)	10/26/16	< 0.1	\$0.537	\$18,333	<1%
TOTAL		19.7		\$16,397,804	100%

Notes:

- (1) Wholesale rates are calculated using methodologies that differ from inside-city retail rates, and generally do not include distribution system costs.
- (2) These customers with 10-year agreements are obligated to continue to purchase water through at least June 2017.
- (3) The City of Tigard has given notice that it does not intend to renew its water sales agreement with City but has indicated it would like to negotiate with the City provide a backup source of water.
- (4) Six private water companies include GNR Corporation, Green Valley Water Company, Hideaway Hills Water Company, Lorna Water Company, Skyview Acres Water Company, and Two Rivers Water Association.

Source: City of Portland. Totals may not add due to rounding.

The following tables present information for the past five fiscal years on the number of accounts by wholesale and retail customers, consumption amounts in hundreds of cubic feet (“ccf”), and a list of major users of the Water System.

Table 10
CITY OF PORTLAND, OREGON
Water Bureau
Historical Number of Accounts

Fiscal Year Ending June 30	2006-07	2007-08	2008-09	2009-10	2010-11
TOTAL RETAIL CUSTOMERS	180,100	182,000	183,400	181,100	181,200
WHOLESALE CUSTOMERS					
Tualatin Valley Water District	57,152	57,019	57,395	57,711	58,117
Rockwood Water PUD	13,113	13,189	13,025	13,218	13,204
Gresham, City of	16,668	16,758	16,233	16,304	16,291
Tualatin, City of	6,614	6,642	6,658	6,631	6,653
Tigard, City of	17,665	18,018	17,848	17,988	18,129
West Slope Water District	3,351	3,356	3,312	3,212	3,316
Raleigh Water District	976	993	998	1,000	1,003
Palatine Hill Water District	587	605	609	613	604
Lake Grove Water District	1,225	1,233	1,233	1,248	1,271
Valley View Water District	404	375	376	376	379
Pleasant Home Water District	515	531	532	533	541
Lusted Water District	407	410	410	410	408
Burlington Water District	116	118	118	118	118
Six private water companies (1)	211	217	217	213	212
Total Wholesale Customers	119,004	119,464	118,964	119,575	120,246
Grand Total	299,104	301,464	302,364	300,675	301,446

Note:

(1) Six private water companies include GNR Corporation, Green Valley Water Company, Hideaway Hills Water Company, Lorna Water Company, Skyview Acres Water Company, and Two Rivers Water Association.

Source: City of Portland. Totals may not add due to rounding.

Table 11
CITY OF PORTLAND, OREGON
Water Bureau
Historical Consumption (ccf)

Fiscal Year Ending June 30	2006-07	2007-08	2008-09	2009-10	2010-11
TOTAL RETAIL CUSTOMERS	28,500,000	27,900,000	27,700,000	27,200,000	25,500,000
WHOLESALE CUSTOMERS					
Tualatin Valley Water District	6,112,693	6,552,747	6,491,709	6,339,320	6,589,619
Rockwood Water PUD	3,207,052	2,949,288	3,146,955	3,104,794	3,002,205
Gresham, City of	3,572,198	3,188,393	2,844,941	2,954,078	2,798,389
Tualatin, City of	2,580,123	2,808,598	2,772,672	2,308,092	2,257,048
Tigard, City of	2,429,683	2,520,796	2,517,159	2,550,541	2,542,052
West Slope Water District	666,219	616,787	618,975	537,173	515,508
Raleigh Water District	293,999	269,936	262,403	251,703	228,480
Palatine Hill Water District	217,311	194,072	210,651	165,945	144,926
Lake Grove Water District	167,995	178,660	168,365	147,040	144,940
Valley View Water District	74,889	68,607	79,487	62,805	53,520
Pleasant Home Water District	97,795	87,979	85,836	70,529	66,122
Lusted Water District	88,853	71,985	77,076	65,673	67,420
Burlington Water District	22,860	20,591	23,378	28,318	23,624
Six private water companies (1)	30,424	26,699	29,439	31,483	27,603
Total Wholesale Customers	19,562,094	19,555,138	19,329,046	18,617,494	18,461,456
Grand Total	48,062,094	47,455,138	47,029,046	45,817,494	43,961,456

Note:

(1) Six private water companies include GNR Corporation, Green Valley Water Company, Hideaway Hills Water Company, Lorna Water Company, Skyview Acres Water Company, and Two Rivers Water Association.

Source: City of Portland. Totals may not add due to rounding.

Table 12
CITY OF PORTLAND, OREGON
Water Bureau
Major Users for Fiscal Year 2010-11

	Annual Usage	
Retail Commercial Users	(ccf)	Revenue
Siltronic Corp (1)	792,263	\$2,147,160
Oregon Health Sciences University	278,867	\$777,490
Bureau of Parks (City of Portland)	245,177	\$721,918
Portland Public Schools	186,965	\$592,782
Precision Castparts	208,119	\$570,706
Port of Portland	163,979	\$480,011
Portland State University	128,779	\$383,391
Multnomah County Facilities and Property Management	115,807	\$349,422
Housing Authority of Portland	113,270	\$338,644
Darigold, Inc	123,153	\$335,983
Largest Wholesale Users		
Tualatin Valley Water District	6,589,619	\$5,439,838
Tigard, City of	2,542,052	\$2,644,797
Gresham, City of	2,798,389	\$1,923,810
Rockwood Water PUD	3,002,205	\$1,897,362
Tualatin, City of	2,257,048	\$1,783,140
West Slope Water District	515,508	\$824,361

Note:

- (1) On March 9, 2012, Siltronic announced that it intends to stop producing 150 millimeter-sized silicon wafers at its Portland, Oregon location in the fall of 2012. Siltronic announced that it will continue to produce 200 millimeter-sized wafers at its Portland site. If Siltronic closes the Portland, Oregon factory, the estimated retail rate impact to ensure that revenues are sufficient to pay debt service and meet debt service coverage planning standards could be as much as two percent.

Source: City of Portland.

RATES AND RATE SETTING

Section 11-105 of the City Charter authorizes the City Council to fix fees and charges for connection to and use of the Water System. Water user fees and connection charges are formally reviewed every year by the Bureau. Rates required to support proposed activities for the next year are submitted by the Bureau Administrator to the City Council for review and approval.

Rates and charges for water services are established annually based, in part, upon cost of service principles and methodologies recommended by the American Water Works Association (the “AWWA”). The process used by the Bureau follows the Commodity Demand method promulgated by the AWWA. Under this approach, developed for the Bureau by Raftelis Financial Consultants, Inc in 2006, Water System costs are allocated to customers based on their average and peak water demand characteristics and use of the system. Retail rates are then established based on the residual financial requirements of the system.

The Bureau received approval from the State of Oregon Water Resources Department for the City’s Water Management and Conservation Plan (the “WMCP”). The WMCP final order states that the Bureau will perform a comprehensive study of conservation rate structure options within the next five years and determine if a change in rate structure is desirable or necessary. The Bureau has selected the consultant to perform this study, which is expected to get underway during the remainder of FY 2011-12 and be completed in FY 2012-13. Once the rate study and any action taken by the City have been completed, the information will be submitted to the Oregon Water Resources Department as part of the required progress report under OAR 086-0120(4) by May 25, 2015.

The following tables summarize the Bureau’s historical rates and water monthly bills for various customers as well as a comparison of residential monthly water bills for various systems within the State of Oregon and the nation.

Table 13
CITY OF PORTLAND, OREGON
Water Bureau
Historical Water Rates

Fiscal Year Ending June 30	2006-07	2007-08	2008-09	2009-10	2010-11
WATER USAGE RATES					
Retail Volume Rate (per ccf) (1)	\$1.77	\$1.86	\$2.07	\$2.44	\$2.733
BASE CHARGE (2)					
Total Base Charge per Bill	N/A	\$19.66	\$18.51	\$22.13	\$24.79
Water Quarterly Billed Customer per month (2)	\$3.32	\$6.55	\$6.17	\$7.38	\$8.26
Water Monthly Billed Customer (2)	\$9.96	\$19.66	\$18.51	\$22.13	\$24.79
MONTHLY WATER BILLS (2)					
Residential (5 ccf) (3)	\$12.17	\$15.85	\$16.52	\$19.58	\$21.93
Medium Commercial (100 ccf) (4)	\$186.96	\$205.66	\$225.51	\$266.13	\$298.09
Large Commercial (20,000 ccf)	\$35,410	\$37,220	\$41,419	\$48,822	\$54,685
Low Income Residential (5 ccf) (5)	\$7.32	\$9.50	\$9.92	\$9.79	\$10.96

Notes:

- (1) Applies to substantially all retail customers.
- (2) Beginning in FY 2007-08, the Bureau is responsible for the total base charge. In prior years, the base charge for FY 2007-08 reflected only the Bureau's share of the base charge rather than the total base charge.
- (3) Current usage by a typical single family residential customer has dropped from 6 ccf to 5 ccf.
- (4) Current usage by a medium commercial customer has dropped from 200 ccf to 100 ccf.
- (5) Bills for low income residential customers include a discount on water usage and the base charge. In the prior years, the FY 2007-08 low income monthly bill reflected only the Bureau's share of the base charge rather than the total base charge. Beginning in FY 2009-10 the low income discount increased from 40% to 50% of a 5ccf bill.

Source: City of Portland.

Table 14
CITY OF PORTLAND, OREGON
Water Bureau
Comparison of Residential Monthly Water Bills

<u>WATER UTILITY (Effective Date) (1)</u>	<u>Residential Monthly Bill For 5 ccf</u>	<u>Residential Monthly Bill For 10 ccf</u>
Local:		
Milwaukie, City of (2011)	\$14.70	\$24.90
Rockwood Water PUD (2011)	15.94	25.44
Tualatin, City of (2008)	18.35	29.80
Tualatin Valley Water District (2011)	19.41	31.96
Beaverton, City of (2011)	21.35	33.70
PORTLAND, CITY OF (2011)	24.76	40.19
Gresham, City of (2012)	31.06	42.01
Lake Oswego, City of (2012)	30.58	42.95
Tigard, City of (2012)	29.64	45.57
West Slope Water District (2011)	33.11	54.36
National :		
Charlotte (2011)		23.23
Denver (2012)		25.33
Cincinnati (2012)		25.63
Sacramento (unmetered) (2010)		34.35
Kansas City (2012)		49.19
Seattle (winter) (2012)		53.65

Notes:

(1) Calculations are based on rates in effect as noted, and the City's rates are effective July 1, 2011 through June 30, 2012.

Source: City of Portland, Portland Water Bureau.

BILLINGS AND COLLECTIONS

The City implemented the Cayenta Utilities billing system in April 2006 to serve Water and BES. The City's Revenue Bureau operates the billing system with costs paid by the Water Bureau.

Residential accounts make up the majority of the 181,200 water services with commercial accounts totaling approximately 20,000 (including 3,700 fire line) water services. In addition to water service accounts, there are over 6,700 sewer-only accounts, most of which are billed bi-monthly.

Billing for most retail water customers (about 173,500) is on a quarterly cycle. A monthly pay option is available for qualified customers billed on a quarterly basis. Approximately 7,700 large retail commercial accounts, multi-family users, and wholesale purveyors are billed on a monthly basis.

A financial assistance program for water and sewer services is available to single family residential retail in-city customers with incomes at or below 60 percent of the average State of Oregon median family income. For FY 2010-11, assistance included a flat quarterly bill discount for water customers of \$32.90, crisis assistance vouchers (maximum of \$150 per year, including \$75 for water and \$75 for sewer), in-home plumbing repair assistance for owner-occupied properties up to \$2,600, and free conservation devices. In addition, a Utility Safety Net Program was implemented on July 1, 2007 to provide assistance to customers with financial hardship due to extraordinary medical expenses, adverse change in employment status, or change in household status that adversely impacts their ability to pay their utilities.

Most water bills are collected along with the payment for sewer service. When a bill for water or wastewater service becomes delinquent (21 days after billing) a reminder notice is sent on day 35. Additional notices are sent up to termination of service at eight weeks. Even though the customer is still in arrears at the termination date, the City will set up special payment arrangements rather than shut off water service if it is in the best interest of both the City and the customer to continue water service.

The Bureau currently bills most of its customers on a quarterly basis. The FY 2011-12 Adopted Budget included a budget note directing the Bureau to adjust its billing system and business processes so that the majority of the water and wastewater customers are billed monthly. City Council has revised their initial direction to provide a monthly statement to those who sign up for electronic billing. The Bureau will implement a voluntary electronic monthly statement program. Customers may request an electronic monthly statement, but the meter reading frequencies would not change.

SYSTEM DEVELOPMENT CHARGES

An SDC is levied by the Bureau for each new water service connected to the Water System inside the City boundaries. The Bureau's SDC is in accordance with ORS 223.297-314, and is a reimbursement fee based on the estimated replacement cost of existing water facilities, less depreciation. The amount charged is dependent on the size of the service with larger services paying a greater amount based on the capacity of the meter. Services dedicated to fire flow and temporary construction services do not pay an SDC. FY 2010-11 SDC revenues were \$1.3 million.

Table 15
CITY OF PORTLAND, OREGON
Water Bureau
FY 2011-12 SDC Charge by Meter/Service Size

<u>Size of Meter/Service</u>	<u>Charge</u>
5/8"	\$1,732
3/4"	2,599
1"	4,331
1-1/2"	8,663
2"	13,691
3"	25,671
4"	42,785
6"	85,570
8"	136,911
10"	246,098

Source: City of Portland.

Beginning with the FY 1999-00 rate ordinance, City Council approved an "Affordable Housing SDC Fee Waiver." For any new qualified residential construction that meets certain affordability requirements, the entire SDC can be waived for a 5/8" metered service. If a 3/4" metered service is requested, only the SDC dollar amount for the 5/8" metered service is waived. Multi-family housing SDC waivers are also available if certain affordability requirements are met. FY 2010-11 fee waivers (including accessory dwelling units waivers) totaled \$179,965. Loss of these revenues is made up through general water retail rates and charges. Beginning in April 2010, City Council suspended system development charges for construction of accessory dwelling units or the conversion of structures to accessory dwelling units until June 30, 2013. FY 2010-11 accessory dwelling unit SDC waivers were \$10,260.

OTHER FINANCIAL INFORMATION

Outstanding Water System Debt

Upon the issuance of the 2012 Series A Bonds, the City will have an estimated total of \$455,620,000* of Water System revenue bonds outstanding. The following table shows outstanding Water System revenue bonds as of the delivery of the 2012 Series A Bonds.

* Preliminary, subject to change.

Table 16
CITY OF PORTLAND, OREGON
Water Bureau
Outstanding Water System Revenue Bonds
As of the Delivery of the 2012 Series A Bonds

<u>Issue</u>	<u>Dated</u>	<u>Final Maturity</u>	<u>Original Par Amount</u>	<u>Amount Outstanding</u>
First Lien Water System Revenue Bonds				
2004 Series A	5/6/04	10/1/15	\$29,900,000	12,135,000
2004 Series B	5/6/04	10/1/23	61,900,000	43,360,000
2006 Series B	9/21/06	10/1/20	44,000,000	38,855,000
2008 Series A	8/7/08	11/1/33	79,680,000	74,240,000
2010 Series A	2/11/10	5/1/35	73,440,000	70,560,000
2011 Series A	3/22/11	5/1/36	82,835,000	81,325,000
2012 Series A (1)	8/2/12	4/1/37	74,560,000	74,560,000
<i>Subtotal</i>			<u>\$446,315,000</u>	<u>\$395,035,000</u>
Second Lien Water System Revenue Bonds				
2006 Series A	9/21/06	10/1/31	<u>\$68,970,000</u>	<u>\$60,585,000</u>
<i>TOTAL</i>			<u>\$515,285,000</u>	<u>\$455,620,000</u>

Notes:

(1) Preliminary, subject to change.

Source: City of Portland.

FINANCIAL PROJECTIONS

KEY FORECAST ASSUMPTIONS

Financial projections for the Water System through FY 2016-17 are shown in the following three tables.

Key assumptions underlying the expenditure forecast include:

- Annual inflation for operating requirements for FY 2012-13 of 3.7 percent, and 2.8 to 4.5 percent for the remaining forecast period.
- The Bureau's OPEB is estimated at \$300,000 each year for the five-year forecast period.
- Capital expenditure rates are 100% for the five-year forecast period.
- The Bureau's cost related to the City's outstanding pension obligation bonds rises from \$2.8 million in FY 2012-13 to \$4.2 million in FY 2016-17, for a total of \$18.0 million over the forecast period.
- Pension system contribution rates average 14.7 percent of salary for FY 2012-13 and rise to 20.3 percent by FY 2016-17. (See "CITY OPERATING AND FINANCIAL INFORMATION—PENSION PLANS" in Appendix C.)
- Annual expenditures of about \$1.0 million budgeted for groundwater pumping to meet peak summer demand and for emergency events.
- The FY 2012-13 Approved Budget includes funding for a treatment variance monitoring program that includes monitoring and research to meet and exceed the conditions outlined in the Final Order. (See "REGULATORY ENVIRONMENT—CURRENT AND EMERGING REGULATORY ISSUES—Water Quality—*Cryptosporidium*" herein.)

Key assumptions underlying the revenue forecast include:

- Retail water demand is projected to decline one percent per year through FY 2012-13 and then remain at 27.0 million ccf for the remainder of the forecast period.
- Wholesale water sales across the forecast period are based on the 5-, 10- and 20-year contract terms. Interruptible wholesale water sales, excess peaking factor surcharge, or reimbursements for engineering studies are only included in the first year of the forecast. Wholesale revenues are forecast at \$17.7 million in FY 2012-13, or an average of about \$18.5 million per year over the five-year planning period. Increasing annual revenues over this period are due to modest inflationary increases and new capital investments that serve wholesale customers.
- City of Tigard wholesale contract terminates on June 30, 2016. The remaining customers with 10-year agreements continue to purchase water through the forecast period. The City of Sandy will pay for water beginning November 2013.
- User charges are projected to increase, as described below. (See "FINANCIAL PROJECTIONS—FORECAST RATES AND CHARGES.")
- In developing the five year projections, it has been assumed that additional First Lien Bonds or Second Lien Bonds will be issued to fund capital program requirements. Assumptions underlying the debt service forecast include:
 - An assumed true interest cost of 4.50 percent for the 2012 Series A Bonds.
 - The subaccount of the Revenue Bond Reserve Account for the 2012 Series A Bonds will be cash funded with bond proceeds.
 - Additional Revenue Bonds are anticipated in FY 2012-13, FY 2013-14 and FY 2015-16 within the five-year period through FY 2016-17 totaling \$515.9 million. A six percent true interest cost is assumed for all additional First Lien or Second Lien Bonds. The subaccount of the Revenue Bond Reserve Account for each issue is anticipated to be funded with bond proceeds.

USE OF RATE STABILIZATION ACCOUNT

With the issuance of the Second Lien Water System Revenue Bonds in 2006, the Bureau established a Rate Stabilization Account to smooth rate increases while ensuring that coverage meets planning standards. (See PROVISIONS OF THE 2012 SERIES A BONDS – SUBORDINATE OBLIGATIONS – Second Lien Bonds” and “FINANCIAL POLICIES AND PLANNING STANDARDS – Rate Stabilization Account.”) The following table shows projected ending balances in the Rate Stabilization Account.

Table 17
CITY OF PORTLAND, OREGON
Water Bureau
Projected Rate Stabilization Account
Ending Balance (1)

Fiscal Year	Ending Balance
2011-12	\$20,000,000
2012-13	20,600,000
2013-14	15,600,000
2014-15	5,000,000
2015-16	2,200,000
2016-17	4,800,000

Notes:

- (1) The Rate Stabilization Account serves as a contingency for unforeseen expenditures, and to build account balance for the purpose of smoothing rate increases.

Source: City of Portland.

FORECAST REVENUES AND EXPENDITURES

Forecast sources and uses of the Water Operating Fund for FY 2012-13 through FY 2016-17 are shown in Table 18. Table 19 shows historical, projected, and forecast results of the Water System’s financial operations for FY 2006-07 through FY 2016-17, including trends in revenues, expenses, and debt service coverage.

The principal resources available to the Water Operating Fund are service charges and fees. FY 2012-13 water rates and charges were adopted by City Council on May 30, 2012, representing an average effective retail rate increase of 7.6 percent from FY 2011-12 amounts. The average effective retail rate increase planned for FY 2013-14 is 14.8 percent, 14.8 percent in FY 2014-15, 13.5 percent in FY 2015-16, 7.7 percent in FY 2016-17. All future rate increases are subject to City Council approval. As shown in the following table, receipts increase from \$287.0 million to \$317.4 million over the period FY 2012-13 to FY 2016-17 and represent an average annual increase of 2.5 percent. This increase is primarily the combination of projected increases in water rates (see “FORECAST RATES AND CHARGES” below) offset with decreases in the reimbursement of capital expenditures from the Construction Fund. No change in the number of retail customer accounts served by the Water System is expected. Overall retail water demand is projected to remain flat over the forecast period. The other major revenue source for the Water Operating Fund is the reimbursement of all capital expenditures by the Water Construction Fund. This amount averages \$129.3 million per year over the forecast period.

The Bureau projects Water Operating Fund expenditures to increase over the forecast period of FY 2012-13 through FY 2016-17 from \$286.7 million to \$315.4 million. Total operation and maintenance expenses are projected to increase from \$88.9 million to \$104.4 million over the same interval, representing an average annual increase of 4.1 percent. In addition to operation and maintenance expenses, Water Operating Fund requirements include capital outlays (reimbursed by the Water Construction Fund), debt service payments (transfers to the Water Bond Sinking Fund), cash transfers (rate-financed capital) to the Water Construction Fund, and General Fund overhead and Utility License Fee cash transfers to the General Fund.

As is shown in Table 19, sufficient Net Revenues are projected to meet and pay debt service on revenue bonds, including planned future issues. Net Revenues provide from 2.01 to 2.39 times debt service coverage for First Lien Bonds, which exceeds the

Bureau's 1.90 planning standard for First Lien Bond debt service coverage. Net Revenues also provide from 1.57 to 1.78 times coverage on Combined Annual Debt Service for both First and Second Lien Bonds. Stabilized Net Revenues provide not less than 1.74 times coverage on Combined Annual Debt Service for First and Second Lien Bonds. Excluding the Bureau's share of the non-cash OPEB from operating expenses, the Bureau also meets its 1.75 times combined coverage planning standard.

Table 18
CITY OF PORTLAND, OREGON
Water Bureau
Water Operating Fund
Forecast Sources and Uses of Funds (1)

Fiscal Year Ending June 30	2012-13	2013-14	2014-15	2015-16	2016-17
(In thousands of dollars)					
BEGINNING BALANCE (Cash)	\$15,299	\$15,003	\$15,003	\$15,003	\$15,000
RECEIPTS:					
Water Sales	\$132,948	\$149,337	\$169,045	\$189,834	\$205,035
Interagency Receipts	1,598	1,670	1,725	1,787	1,837
Transfers from Construction Fund	150,394	153,888	133,220	100,893	108,118
Interest Income	124	165	126	94	94
Other Miscellaneous Receipts	1,981	2,216	2,192	2,271	2,335
TOTAL RECEIPTS	287,045	307,276	306,309	294,881	317,420
Transfer from Rate Stabilization Account	0	5,000	10,600	2,200	0
TOTAL SOURCES OF FUNDS	\$302,344	\$327,279	\$331,912	\$312,084	\$332,420
EXPENDITURES					
Operation and Maintenance	\$88,918	\$94,171	\$97,673	\$101,903	\$104,378
Transfers to Construction Fund	17,895	24,230	32,455	34,960	37,860
Direct Capital Costs	133,416	136,145	114,892	81,905	88,599
General Fund Overhead	4,063	4,246	4,386	4,544	4,671
Utility License Fee	5,635	6,434	7,393	8,407	9,103
Transfer to Water Bond Sinking Fund	36,815	47,050	60,110	65,364	70,809
TOTAL EXPENDITURES	286,741	312,275	316,909	297,083	315,420
Transfer to Rate Stabilization Account	600	0	0	0	2,000
ENDING BALANCE	15,003	15,003	15,003	15,000	15,000
TOTAL USES OF FUNDS	\$302,344	\$327,279	\$331,912	\$312,084	\$332,420

Notes:

(1) Based on FY 2012-13 Approved Budget.

Source: City of Portland. Totals may not add due to rounding.

Table 19
CITY OF PORTLAND, OREGON
Water Bureau
Historical, Projected and Forecast Operating Results (1)

	Historical					Projected	Forecast				
Fiscal Year Ending June 30	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
(in thousands of dollars)											
GROSS REVENUES (2)											
Operating Revenues	\$89,223	\$89,261	\$94,163	\$107,333	\$112,191	\$121,933	\$136,527	\$153,223	\$172,963	\$193,893	\$209,208
Interest Earnings	3,993	2,786	2,620	950	650	687	367	576	634	693	628
Capital Charges	10,052	11,214	8,650	5,405	5,859	5,789	5,360	5,733	6,455	7,044	7,497
Total Gross Revenues	\$103,268	\$103,261	\$105,433	\$113,688	\$118,700	\$128,409	\$142,254	\$159,532	\$180,052	\$201,630	\$217,333
OPERATING EXPENSES (2) (3)											
Operating Expenses	\$55,640	\$64,430	\$64,275	\$66,159	\$64,373	\$71,807	\$77,081	\$81,788	\$84,872	\$88,630	\$90,725
NET REVENUES	\$47,628	\$38,831	\$41,158	\$47,529	\$54,327	\$56,602	\$65,173	\$77,744	\$95,180	\$113,000	\$126,608
DEBT SERVICE (4)											
First Lien Bonds	\$12,403	\$12,267	\$14,993	\$17,667	\$22,143	\$27,026	\$32,490	\$32,474	\$45,633	\$50,975	\$56,359
Second Lien Bonds	\$1,619	\$4,550	\$4,547	\$4,551	\$4,546	\$4,550	\$4,550	\$14,963	\$14,960	\$14,962	\$14,959
G.O. Bonds (5)	\$1,618	\$1,620	\$1,621	\$1,624	\$1,617	\$0	\$0	\$0	\$0	\$0	\$0
DEBT SERVICE COVERAGE (x)											
First Lien Bonds	3.84	3.17	2.75	2.69	2.45	2.09	2.01	2.39	2.09	2.22	2.25
First and Second Lien Bonds	3.40	2.31	2.11	2.14	2.04	1.79	1.76	1.64	1.57	1.71	1.78
All Debt	3.05	2.11	1.94	1.99	1.92	1.79	1.76	1.64	1.57	1.71	1.78
COVERAGE BASED ON STABILIZED NET REVENUES (6)											
NET REVENUES	\$47,628	\$38,831	\$41,158	\$47,529	\$54,327	\$56,602	\$65,173	\$77,744	\$95,180	\$113,000	\$126,608
Less: Transfers to Rate Stabilization Account	(\$2,000)	(\$3,500)	(\$2,250)	(\$7,400)	(\$3,290)	(\$1,560)	(\$600)	-	-	-	(\$2,000)
Plus: Transfers from Rate Stabilization Account	-	-	-	-	-	-	-	\$5,000	\$10,600	\$2,200	\$0
STABILIZED NET REVENUES	\$45,628	\$35,331	\$38,908	\$40,129	\$51,037	\$55,042	\$64,573	\$82,744	\$105,780	\$115,200	\$124,608
DEBT SERVICE COVERAGE (x)											
First and Second Lien Bonds (Financial Statement Purposes only)	3.25	2.10	1.99	1.81	1.91	1.74	1.74	1.74	1.75	1.75	1.75
First and Second Lien Bonds (Calculation excluding OPEB) (7)						1.75	1.75	1.75	1.75	1.75	1.75

Notes:

- (1) Forecast based on FY 2012-13 Approved Budget.
- (2) As defined in the First Lien Bond Ordinance.
- (3) Operating expenses include the Bureau's share of the City's Post-Employment Retirement Benefits (OPEB) starting in FY 2007-08. There are no OPEB reporting requirements under Government Accounting Standards Board (GASB) rules prior to FY 2007-08.
- (4) Includes projected issuance of First Lien Bonds in FY 2012-13, FY 2013-14 and FY 2015-16 and projected issuance of Second Lien Bonds in FY 2012-13.
- (5) There are no outstanding General Obligations Bonds subsequent to the final principal payment on October 1, 2010.
- (6) The Second Lien Rate Stabilization Account was created with the issuance of the 2006 Series A Bonds. There were no Second Lien Bonds prior to FY 2006-07.
- (7) Planning standard for debt service coverage calculation excludes the non-cash Bureau's share of City's Post-Employment Retirement Benefits (OPEB).

Source: City of Portland. Totals may not add due to rounding.

FORECAST RATES AND CHARGES

To generate the operating revenues in the Bureau's financial forecast, the Bureau will need to increase its user charges. The following table presents the approved rates for FY 2011-12 and projected rates for FY 2012-13 through FY 2016-17 that generate the required revenues. These rates are based on the revenue requirements from the Bureau's financial plan and the cost allocation methodology of its cost-of-service rate model.

The Bureau assesses both a volumetric usage charge and a fixed monthly base charge. The average volumetric charge for retail users is forecast to increase from \$3.086 per ccf in FY 2011-12 to \$5.351 per ccf by FY 2016-17. This increase corresponds to an average annual increase of 14.75 percent. A monthly base charge is imposed on water services connected directly to the Water System. Such base charge is in addition to the rates charged for water usage. The fixed monthly base charge accounts for approximately 24 percent of the Bureau's user charge revenues. The total fixed monthly base charge for quarterly billed customers is projected to increase from \$9.33 per month in FY 2011-12 to \$16.18 per month by FY 2016-17. The typical 5 ccf single residential family monthly water bill is projected to increase from \$24.76 in FY 2011-12 to \$42.94 in FY 2016-17.

Table 20
CITY OF PORTLAND, OREGON
Water Bureau
Current and Forecast Water Rates and Water Bills

Fiscal Year						
Ending June 30	2011-12	2012-13 (1)	2013-14	2014-15	2015-16	2016-17
WATER USAGE RATES						
Retail Volume Rate (per ccf) (2)	\$3.086	\$3.321	\$3.813	\$4.377	\$4.968	\$5.351
BASE CHARGE						
Total Base Charge per Bill	\$27.99	\$30.12	\$34.58	\$39.70	\$45.06	\$48.53
Quarterly Billed Customer per Month	\$9.33	\$10.04	\$11.53	\$13.23	\$15.02	\$16.18
Monthly Billed Customer	\$27.99	\$30.12	\$34.58	\$39.70	\$45.06	\$48.53
MONTHLY WATER BILLS						
Residential (5 ccf)	\$24.76	\$26.65	\$30.60	\$35.12	\$39.86	\$42.94
Medium Commercial (100 ccf)	\$336.59	\$362.22	\$415.88	\$477.40	\$541.86	\$583.63
Large Commercial (20,000 ccf)	\$61,748	\$66,450	\$76,295	\$87,580	\$99,405	\$107,069
Low Income Residential (5 ccf) (3)	\$12.38	\$13.33	\$15.30	\$17.56	\$19.93	\$21.47
Retail Effective Rate Changes	12.9%	7.6%	14.8%	14.8%	13.5%	7.7%

Notes:

- (1) Reflects rate schedule approved by the City Council on May 30, 2012. Rates shown for future years are based on projections which may be updated or revised. Future year rates are subject to Council review and approval.
- (2) Applies to substantially all retail customers.
- (3) Bills for low income residential customers include a discount on water usage and the base charge.

Source: City of Portland.

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 21
CITY OF PORTLAND, OREGON
Population Estimate for the Last Ten Years

As of July 1	State of Oregon	City of Portland	MSA ⁽¹⁾	Multnomah County	Washington County	Clackamas County
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	2,230,578	736,785	531,070	376,780
2011	3,857,625	585,845	2,246,083	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:

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

Notes:

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

Source: Washington State Office of Financial Management; Portland State University, Center for Population Research. Under Oregon State law, the State Board of Higher Education must estimate annually the population of Oregon cities and counties so that shared revenues may be properly apportioned. The Center for Population Research and Census at Portland State University performs this statutory duty.

INCOME

Per capita personal income in the MSA has been consistently higher than in the State of Oregon, and except for 2007, was higher than in the nation. Table 22 below shows personal income and per capita income for the MSA compared to similar data for the State and nation.

Table 22
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 23 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 May 2012, the seasonally-adjusted unemployment rate for the MSA was 8.0 percent (7.9 percent not seasonally-adjusted) with a resident civilian labor force of 1,201,799. Table 24 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 23
CITY OF PORTLAND, OREGON
MSA Labor Force and Unemployment Rates⁽¹⁾

Year	Resident Civilian Labor Force	Unemployment		Total Employment
		Number	Percent of Labor Force	
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 24
CITY OF PORTLAND, OREGON
Average Annual Unemployment
MSA, Oregon, and the United States
(Not Seasonally Adjusted)

Year	MSA	State of Oregon	USA
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 25
CITY OF PORTLAND, OREGON
Portland-Vancouver-Beaverton, Oregon MSA
Non-Farm Wage and Salary Employment ⁽¹⁾(000)

Industry	2007	2008	2009	2010	2011
Total nonfarm employment	1,034,900	1,034,300	973,800	965,500	975,900
Total private	892,700	887,300	825,700	817,700	830,700
Manufacturing	126,100	123,200	109,100	106,700	108,300
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	766,600	764,200	716,900	711,100	722,600
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	142,300	147,000	148,100	147,800	145,200

Notes:

(1) Totals may not sum due to rounding.

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

Table 26
CITY OF PORTLAND, OREGON
Major Employers in the MSA

Employer	Product or Service	Estimated Employment
Private Employers		
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
Public Employers		
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 27
CITY OF PORTLAND, OREGON
Median Home Sale Price
(U.S. and Portland Metropolitan Area)

Region	1st Quarter 2011	1st Quarter 2012	Percent Change
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 28
CITY OF PORTLAND, OREGON
Median Condo/Coop Sale Price
(U.S. and Portland Metropolitan Area)

Region	1st Quarter 2011	1st Quarter 2012	Percent Change
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 29
CITY OF PORTLAND, OREGON
New Single family and Multi-family
Residential Construction Permits

Year	New Single Family		New Multi-Family	
	No. of Permits	Value	No. of Permits	Value
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 in order to strengthen the economic competitiveness of neighborhood business districts. In May 2012, the City Council approved 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 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 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 North Macadam offices and its Marquam Hill campus.

TOURISM, RECREATION AND CULTURAL ATTRACTIONS

Portland is the State’s largest city and the center of business and transportation routes in the State. Therefore, the City accommodates a large share of the State’s tourist and business visitors. The City is a destination for many tourists who are drawn to its diverse cultural and recreational facilities. These include the Oregon Symphony and associated musical organizations, Portland Center for the Performing Arts, Oregon Ballet, Portland Opera, Portland Center Stage, Portland Art Museum, Oregon Historical Society Museum, Children’s Museum, Oregon Museum of Science and Industry, Forest Discovery Center (formerly World Forestry Center), Japanese Gardens, International Rose Test Gardens, the Lan Su Chinese Garden and the Oregon Zoo. The metropolitan area includes more than 40 other local theater and performance art companies and ten additional gardens of special interest. Portland is the home of Forest Park, the largest urban park in the United States with a total of more than 5,000 acres. A prime tourist attraction for the City, known as the City of Roses, is the three-week long Portland Rose Festival held each June since 1907. More than two million participants enjoy the festival annually.

A 90-minute drive from Portland in almost any direction provides access to numerous recreational, educational, and leisure activities. The Pacific Ocean and the Oregon Coast to the west, the Columbia Gorge and Mt. Hood, Mt. St. Helens and Mt. Adams in the Cascade Range to the east, and the Willamette Valley to the south offer opportunities for hiking, camping, swimming, fishing, sailboarding, skiing, wildlife watching, and numerous other outdoor activities.

The National Basketball Association (“NBA”) Portland Trail Blazers play at the Rose Garden Arena complex (which includes the Veteran’s Memorial Coliseum), as do the major-junior Western Hockey League (“WHL”) Portland Winterhawks. 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 30
CITY OF PORTLAND, OREGON
Statewide Initiative Petitions that Qualified and Passed
2002-2010

<u>Year of General Election</u>	<u>Number of Initiatives that Qualified</u>	<u>Number of Initiatives that Passed</u>
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

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel, interest on the 2012 Series A Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, interest on the 2012 Series A Bonds is included in adjusted current earnings for the purpose of determining the federal alternative minimum tax imposed on certain corporations.

Federal income tax law contains a number of requirements that apply to the 2012 Series A Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the use of proceeds of the 2012 Series A Bonds and the facilities financed with proceeds of the 2012 Series A Bonds and certain other matters. The City has covenanted to comply with all applicable requirements.

Bond Counsel's opinion is subject to the condition that the City comply with the above-referenced covenants and, in addition, will rely on representations by the City and its advisors with respect to matters solely within the knowledge of the City and its advisors, respectively, which Bond Counsel has not independently verified. If the City fails to comply with such covenants or if the foregoing representations are determined to be inaccurate or incomplete, interest on the 2012 Series A Bonds could be included in gross income for federal income tax purposes retroactively to the date of issuance of the 2012 Series A Bonds, regardless of the date on which the event causing taxability occurs.

Except as expressly stated in this Tax Matters section, Bond Counsel expresses no opinion regarding any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the 2012 Series A Bonds. Owners of the 2012 Series A Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the 2012 Series A Bonds, which may include original issue discount, original issue premium, purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, and various withholding requirements.

Prospective purchasers of the 2012 Series A Bonds should be aware that ownership of the 2012 Series A Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," foreign corporations subject to the branch profits tax, life insurance companies and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry or have paid or incurred certain expenses allocable to the 2012 Series A Bonds. Bond Counsel expresses no opinion regarding any collateral tax consequences. Prospective purchasers of the 2012 Series A Bonds should consult their tax advisors regarding collateral federal income tax consequences.

Payments of interest on tax-exempt obligations, such as the 2012 Series A Bonds, are in many cases required to be reported to the Internal Revenue Service (the "IRS"). Additionally, backup withholding may apply to any such payments made to any owner who is not an "exempt recipient" and who fails to provide certain identifying information. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients.

Bond Counsel's opinion is not a guarantee of result and is not binding on the IRS; rather, the opinion represents Bond Counsel's legal judgment based on its review of existing law and in reliance on the representations made to Bond Counsel and the City's compliance with its covenants. The IRS has established an ongoing program to audit tax-exempt obligations to determine whether interest on such obligations is includable in gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS will commence an audit of the 2012 Series A Bonds. Owners of the 2012 Series A Bonds are advised that, if the IRS does audit the 2012 Series A Bonds, under current IRS procedures, at least during the early stages of an audit, the IRS will treat the City as the taxpayer, and the owners of the 2012 Series A Bonds may have limited rights to participate in the audit. The commencement of an audit could adversely affect the market value and liquidity of the 2012 Series A Bonds until the audit is concluded, regardless of the ultimate outcome.

Premium

An amount equal to the excess of the purchase price of a 2012 Series A Bond over its stated redemption price at maturity constitutes premium on that 2012 Series A Bond. A purchaser of a 2012 Series A Bond must amortize any premium over that 2012 Series A Bond's term using constant yield principles, based on the 2012 Series A Bond's yield to maturity. As premium is amortized, the purchaser's basis in the 2012 Series A Bond and the amount of tax-exempt interest received will be reduced by the amount of amortizable premium properly allocable to the purchaser. This will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes on sale or disposition of the 2012 Series A Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of 2012 Series A Bonds at a premium, whether at the time of initial issuance or subsequent thereto, should consult their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and the state and local tax consequences of owning such 2012 Series A Bonds.

Original Issue Discount

The initial public offering price of certain 2012 Series A Bonds (the "Original Issue Discount Bonds") may be less than the stated redemption price at maturity. In such case, the difference between (i) the stated amount payable at the maturity of an Original Issue Discount Bond and (ii) the initial public offering price of that Original Issue Discount Bond constitutes original issue discount with respect to that Original Issue Discount Bond in the hands of the owner who purchased that Original Issue Discount Bond at the initial public offering price in the initial public offering of the 2012 Series A Bonds. The initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to an Original Issue Discount Bond equal to that portion of the amount of the original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by the initial owner.

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

OREGON PERSONAL INCOME TAX MATTERS

In the opinion of Bond Counsel, interest on the 2012 Series A Bonds is exempt from Oregon personal income taxation.

RATING

The 2012 Series A Bonds have been rated "Aaa" 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 Series A Bonds.

FORWARD LOOKING STATEMENTS

This Official Statement contains statements relating to future results that are "forward looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement and its appendices, the words "estimate," "forecast,"

“intend,” “expect,” “projected,” and similar expressions identify forward looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward looking statements. Any forecast is subject to such uncertainties. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the 2012 Series A 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 Series A Bonds, the First Lien Bond Ordinance, the 2012 Series A Bond Declaration, and the authority to issue the 2012 Series A Bonds conform to the 2012 Series A Bonds and the applicable laws under which they are issued. The statements made in this Official Statement under the captions “THE 2012 SERIES A BONDS” and “TAX MATTERS” have been reviewed and approved by Bond Counsel. All other representations of law and factual statements contained in this Official Statement, including but not limited to all financial and statistical information and representations contained herein, have not been reviewed or approved by Bond Counsel.

LITIGATION

On December 6, 2011, Citizens for Water Accountability, Trust and Reform filed a lawsuit against the City declaring that the City improperly spent millions of dollars of utility ratepayer monies on projects that are unrelated to the utilities’ core functions. The lawsuit asked for an order that would require the City to reimburse the Water Fund and Sewage Disposal Fund for those expenditures. The City’s preliminary estimate is a combined maximum of about \$50 million for both utility funds if all expenditures in question were determined to be inappropriate. If some or all of the items in question were to be judged inappropriate, the City’s General Fund might be required to reimburse the utilities accordingly.

CERTIFICATE WITH RESPECT TO OFFICIAL STATEMENT

At the time of the original delivery of the 2012 Series A Bonds, the City will deliver a certificate to the Underwriters to the effect that the City has examined this Official Statement and the financial and other data concerning the City contained herein and that, to the best of the City’s knowledge and belief, (i) this Official Statement, both as of its date and as of the date of delivery of the 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 Series A Bonds, there has been no material change in the affairs (financial or otherwise), financial condition or results of operations of the City except as set forth in this Official Statement.

MISCELLANEOUS

All quotations from and summaries and explanations of provisions of law herein do not purport to be complete, and reference should be made to said laws for full and complete statements of their provisions. This Official Statement is not to be construed as a contract or agreement between the City and the Underwriters or owners of any of the 2012 Series A Bonds. Any statements made in this Official Statement involving matters of opinion are intended merely as opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or its agencies, since the date hereof.

CONTINUING DISCLOSURE

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

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

CONCLUDING STATEMENT

This Official Statement has been deemed final by the City for purposes of Rule 15c2-12 of the Securities and Exchange Commission. The undersigned certifies that to the best of his knowledge and belief, (i) this Official Statement, both as of its date and as of the date of delivery of the 2012 Series A Bonds, does not contain any untrue statement of a material fact or omit any statement of a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and (ii) between the date of this Official Statement and the date of delivery of the 2012 Series A Bonds there has been no material change in the affairs (financial or other), financial condition or results of operations of the City except as set forth in or contemplated by this Official Statement.

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

CITY OF PORTLAND, OREGON

By: _____
Debt Manager
Office of Management and Finance

APPENDIX A

**AMENDED MASTER FIRST LIEN WATER SYSTEM
REVENUE BOND ORDINANCE SUMMARY –
THE FIRST LIEN BOND ORDINANCE**



SUMMARY OF FIRST LIEN BOND ORDINANCE

Certain provisions of the First Lien Bond Ordinance, as amended, are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to complete copies of Ordinance No. 174241, the “Amended and Restated Master Water System Bond Ordinance,” and Ordinance No. 178142, amending the “Amended and Restated Master System Bond Ordinance.”

Definitions

Capitalized terms used in the First Lien Bond Ordinance will have the following meanings unless the context clearly requires use of a different meaning:

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

- i. Interest which is to be paid from Bond Proceeds will be subtracted;
- ii. City Payments to be made in the Fiscal Year under a Parity Derivative Product will increase Annual Debt Service, and Reciprocal Payments to be received in the Fiscal Year under a Parity Derivative Product will reduce Annual Debt Service;
- iii. Bonds which are subject to scheduled, noncontingent redemption or tender will 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 will be treated as maturing on that date;
- iv. Bonds which are subject to contingent redemption or tender will be treated as maturing on their stated maturity dates;
- v. Variable Rate Obligations bear interest from the date of computation until maturity at their Estimated Average Interest Rate.

“Audit” means the audit required by ORS 297.425.

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

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

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

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

“Bondowner” or “Owner” means a registered owner of a Bond.

“Bonds” means the Series 1993 Bonds, the Series 1995 Bonds, the 1997 Series A Bonds, the 2000 Series A Bonds and any Parity Obligations.

“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.

“Capital Charge Obligations” means obligations which are secured by Capital Charges, and for which the City has made an election to treat the net proceeds of the obligations as a Gross Revenue.

“Capital Charge Proceeds” means the net proceeds of Capital Charge Obligations. For purposes of this definition, “net proceeds” means the proceeds of the Capital Charge Obligations available to be deposited in the Water Enterprise Fund and used as Gross Revenues, after payment of costs of issuance, credit enhancement fees, accrued and capitalized interest, and similar costs, and funding of reserves.

“Capital Charge Revenues” means all Capital Charges except Committed Capital Charges.

“Capital Charges” means all systems development charges, assessments for local improvements and similar charges which have been imposed on persons or property to recover capital related costs of the Water System, and which are deposited in the Water Enterprise Fund.

“Charter General Obligation Bond Account” means the Charter General Obligation Bond Account in the Sinking Fund described in the First Lien Bond Ordinance.

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

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

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

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

“Committed Capital Charges” means Capital Charges which secure Capital Charge Obligations. For purposes of this definition, committing to pay obligations from Net Revenues will not be treated as securing the obligations with Capital Charges, and Capital Charges which would otherwise be part of Gross Revenues will not become Committed Capital Charges merely because Net Revenues are pledged to pay obligations.

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

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

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

“Derivative Product” means a written contract between the City and a Reciprocal Payor under which the City is obligated to pay the City Payments in exchange for the Reciprocal Payor’s obligation to pay Reciprocal Payments, and which provides that the Reciprocal Payments are to be deposited directly into the Revenue Bond Account and that 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.

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

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

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

“Estimated Average Interest Rate” means:

For Outstanding Bonds during any period in which they are Variable Rate Obligations:

- i. if the Variable Rate Obligations have been Outstanding for a period of 12 months or more, the weighted average rate of interest applicable to such Bonds during the immediately preceding 12 month period; or
- ii. if the Variable Rate Obligations have not been Outstanding for a period of 12 months or more, the higher of, the most current actual interest rate on the Variable Rate Obligations; or, 100% of the most recently published interest rate for municipal bonds with similar terms and credit ratings published in *The Bond Buyer*; and

For Bonds which have been authorized but not yet been issued, 100% of the most recently published interest rate for municipal bonds with similar terms and credit ratings published in *The Bond Buyer*.

“Event of Default” means events of default specified in the First Lien Bond Ordinance.

“First Lien Bond Ordinance” means Ordinance No. 174241, enacted on March 15, 2000, as amended.

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

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

“Gross Revenues” means all revenues, fees and charges, including Capital Charge Revenues and Capital Charge Proceeds, and other revenues resulting from the operation of the Water System, including revenues from product sales and interest earnings on Gross Revenues in the Water Enterprise Fund. However, the term “Gross Revenues” does not include:

- i. the interest income or other earnings derived from the investment of any fund created to hold Bond rebate payments which are being held for payment to the United States under Section 148 of the Code or any escrow fund established for the defeasance or refunding of outstanding indebtedness of the City;
- ii. Committed Capital Charges;
- iii. any gifts, grants, donations or other moneys received by the City from any State or Federal Agency or other person if such moneys are restricted by law or the grantor to uses inconsistent with the payment of Bonds;
- iv. the proceeds of any borrowing (other than Capital Charge Proceeds);
- v. the proceeds of any liability or other insurance (excluding business interruption insurance or other insurance of like nature insuring against the loss of revenues);
- vi. the proceeds of any casualty insurance which the City intends to utilize for repair or replacement of the Water System;
- vii. the proceeds derived from the sales of assets permitted by the First Lien Bond Ordinance;
- viii. any ad valorem or other taxes imposed by the City (except charges or payments for Water System services which become “taxes” within the meaning of Article XI, Section 11b of the Oregon Constitution only because they are imposed on property);
- ix. any income, fees, charges, receipts, profits or other moneys derived by the City from its ownership or operation of any Separate Utility System.

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

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

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

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

“Operating Expenses” means all costs which are properly treated as expenses of operating and maintaining the Water System under generally accepted accounting principles, including financing lease payments which the First Lien Bond Ordinance permits to be treated as Operating Expenses. However, Operating Expenses do not include:

- i. any rebates or penalties paid from Gross Revenues under Section 148 of the Code;
- ii. payments of judgments against the City and payments for the settlement of litigation;
- iii. depreciation and amortization of property values or losses, and all amounts treated for accounting purposes as payments for capital expenditures;
- iv. debt service payments;
- v. the expenses of owning, operating or maintaining any Separate Utility System; or
- vi. franchise fees and similar charges imposed by the City on the Water System or its operations.

“ORS” means the Oregon Revised Statutes.

“Outstanding” refers to all Bonds authorized and delivered pursuant to the First Lien Bond Ordinance and any Supplemental Ordinance except Bonds canceled or defeased pursuant to the First Lien Bond Ordinance, and Bonds which have matured and not been presented for payment (provided sufficient funds to pay those Bonds have been transferred to the Paying Agent).

“Parity Derivative Product” means a Derivative Product which qualifies as a Parity Obligation.

“Parity Obligation” means any obligation payable from the Net Revenues which is issued in accordance with the First Lien Bond Ordinance, and includes any Parity Derivative Product.

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

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

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

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

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

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

“Reciprocal Payment” means scheduled payment to be made to, or for the benefit of, the City under a Derivative Product 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 Derivative Product.

“Reciprocal Payor” means a party to a Derivative Product (other than the City) that is obligated to make one or more Reciprocal Payments thereunder, and which has at least an investment grade rating from a Rating Agency for its obligations under the Derivative Product.

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

“Registrar” means the registrar and paying agent for the Bonds, which is currently U.S. Bank Trust National Association.

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

“Reserve Requirement” means: (a) for Bonds issued before January 1, 2004: the lesser of Maximum Annual Debt Service on all Outstanding Bonds issued before January 1, 2004, or the amount described in the next sentence of this definition; and (b) for Bonds issued on or after January 1, 2004, the Tax Maximum for the Series of which those Bonds are a part. For Bonds that are part of a Series that was issued before January 1, 2004, if, at the time the Series was issued, the amount required to be added to the Revenue Bond Reserve Account to make the balance in the Revenue Bond Reserve Account equal to the Maximum Annual Debt Service on all Outstanding Bonds issued before January 1, 2004, exceeds the Tax Maximum calculated with respect to that Series, then the Reserve Requirement for all Bonds issued before January 1, 2004, means the Reserve Requirement in effect on the date of issuance of that Series (calculated as if that Series of Bonds were not Outstanding), plus the Tax Maximum for that Series. However, the City may elect to fund the Reserve Requirement for any Series of Bonds in equal annual installments over a period of five years. If the City makes this election for a Series of Bonds, the Reserve Requirement shall be reduced by any installments the City has elected to make, but which are not yet due to be deposited in the Revenue Bond Reserve Account.

“Revenue Bond Account” means the Revenue Bond Account created by the First Lien Bond Ordinance.

“Revenue Bond Reserve Account” means the Revenue Bond Reserve Account in the Sinking Fund created by the First Lien Bond Ordinance.

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

“Separate Utility System” means any utility property which is declared by the City Council to constitute a system which is distinct from the Water System.

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

“Series 1993 Bonds” means the City’s Water System Revenue Bonds, Series 1993, which were issued pursuant to Ordinance No. 166992.

“Series 1995 Bonds” means the City’s Water System Revenue Bonds, Series 1995, which were issued pursuant to Ordinance No. 169398.

“Sinking Fund” means the Water Bond Sinking Fund in the Water Enterprise Fund, which the City has created to provide for the repayment of bonded debt and the interest on bonded debt.

“State” means the State of Oregon.

“Subordinate Obligations” means obligations having a lien on the Net Revenues which is subordinate to the lien of the Bonds.

“Subordinate Obligations Account” means the Subordinate Obligations Account of the Water Enterprise Fund.

“Supplemental Ordinance” means any Ordinance which supplements or amends the First Lien Bond Ordinance.

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

“Valuation Date” means July 1 of each year (or the first Business Day thereafter, if July 1 is not a Business Day), and the Business Day following any transfer from the Revenue Bond Reserve Account to the Revenue Bond Account due to any deficiency in the Revenue Bond Account.

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

“Water Enterprise Fund” means the collection of funds and accounts used by the City to hold the Gross Revenues and the proceeds of Bonds; it currently includes the Water Operating Fund, the Construction Fund, and the Sinking Fund.

“Water System” means all utility property now or hereafter used by the City to supply water within or without the corporate limits of the City, and any power generating facilities which are operated in connection with property which supplies water. However, the Water System does not include any Separate Utility System or the hydroelectric turbines and related facilities on the Bull Run River which were originally financed with the City’s Hydroelectric Power Revenue Bonds which were issued in 1979 in the original principal amount of \$38,000,000 and the City’s Hydroelectric Power Revenue Bonds, Series B which were issued in 1980 in the original principal amount of \$17,000,000 and any improvements to those turbines and facilities.

“1997 Series A Bonds” means the City’s Water System Revenue Bonds, 1997 Series A, which were issued pursuant to Ordinance No. 171743.

“2000 Series A Bonds” means the City’s Water System Revenue Bonds, 2000 Series A, which are being issued pursuant to this First Lien Bond Ordinance.

Use of Gross and Net Revenues; Pledge

Gross Revenues will be deposited and maintained in the Water Enterprise Fund and will be used as long as Bonds remain outstanding. Gross and Net Revenues will be applied in the following order of priority: 1) to pay Operating Expenses due each month; 2) to make semiannual transfers to pay Bond principal, interest and premium when due; 3) to fund and maintain the Revenue Bond Reserve Account ; 4) to pay rebates or penalties for Bonds to the United States pursuant to Section 148 of the Code; 5) to pay Subordinate Obligations; 6) to pay principal of, interest on, and premium on the City’s general obligation bonds issued pursuant to Section 11-103 of the City Charter; 7) to pay franchise fees and similar charges; 8) to make annual transfers of not less than \$5,000,000 to the Capital Renewal Account; and, 9) if all deposits and payments having a higher priority under this paragraph have been made, to spend Net Revenues for any other lawful purpose.

The Net Revenues are pledged by the City to payment of principal, interest and any necessary premium on all Bonds, and any amounts due under any Reserve Credit Facility. All Net Revenues are subject to a lien of the pledge which is superior to all other claims and liens.

Bond Accounts

So long as Bonds are Outstanding, the City will maintain the Revenue Bond Account, the Revenue Bond Reserve Account, the Subordinate Obligations Account and the Charter General Obligation Bond Account as discrete accounts in the Water Enterprise Fund. Unless the City restructures the funds and accounts in the Water Enterprise Fund, the Revenue Bond Account, the Revenue Bond Reserve Account, the Subordinate Obligations Account and the Charter General Obligation Bond Account will be maintained in the Sinking Fund.

Revenue Bond Account

The City will maintain the Revenue Bond account until all Bonds are paid or defeased. These funds will only be used to pay Bonds. The City will transfer funds from this account to the Registrar to enable the Registrar to pay all Bond principal, interest and premium (if any) when due. Funds in the Revenue Bond account will only be invested in Permitted Investments and all earnings will be credited to the account.

If, on any Payment Date the amounts on deposit in the Revenue Bond Account are insufficient to pay all Bond principal of, premium (if any) and interest due on that Payment Date, the City will transfer Net Revenues in the Water Enterprise Fund (other than amounts in the Revenue Bond Reserve Account) to the Revenue Bond Account in an amount equal to the deficiency.

Revenue Bond Reserve Account

The Revenue Bond Reserve Account shall be divided into subaccounts. One subaccount shall contain all amounts credited to the Revenue Bond Reserve Account for all Series of Bonds issued before January 1, 2004, and shall be used only to pay Bonds issued before January 1, 2004. The City shall establish separate subaccounts in the Revenue Bond Reserve Account for each Series of Bonds that is issued after January 1, 2004, and amounts in those subaccounts shall be used only to pay Bonds that are part of the Series for which the subaccount is created.

The City shall apply Net Revenues and bond proceeds to maintain a balance in each subaccount of the Revenue Bond Reserve Account that is equal to the Reserve Requirement for that subaccount as required by the First Lien Bond Ordinance (see "Use of Gross and Net Revenues; Pledge" above and "Parity Obligations" below).

The funds in the Revenue Bond Reserve Account will be used to pay Bonds only if the funds in the Revenue Bond Account and Net Revenues are insufficient to pay Bond principal, interest and premium (if any) when due. In such a case, the City will transfer funds from the Revenue Reserve Account to the Revenue Bond Account equal to the deficiency. If the City is unable to make the transfer described by the preceding sentence, then the City shall allocate the deficiency pro rata among the outstanding Series of Bonds for which a payment is due on that Payment Date, and shall transfer an amount equal to the allocated deficiency from each subaccount of the Revenue Bond Reserve Account to the Revenue Bond Account.

If the value of the investments in any subaccount of the Revenue Bond Reserve Account on a Valuation Date is less than the Reserve Requirement for that subaccount, the City shall begin making substantially equal monthly transfers of Net Revenues to all deficient subaccounts of the Revenue Bond Reserve Account.

Transfers to each subaccount of the Revenue Bond Reserve Account will be applied in the following order: 1) to reimburse the Providers of any Reserve Credit Facilities that were issued for any Series that is secured by that subaccount pro rata for amounts advanced under the Reserve Credit Facility; 2) to replenish the balance in that subaccount with cash or Permitted Investments; and 3) to pay any other amounts owed under a Reserve Credit Facility that was issued for any Series that is secured by that subaccount (including any interest, fees and penalties associated with any draw under a Reserve Credit Facility). The first transfers shall be made not later than the first day of the month following the Valuation Date, and the transfers shall continue until the balance in each subaccount of the Revenue Bond Reserve Account equals the applicable Reserve Requirement.

If a deficiency is due to a transfer from a subaccount of the Revenue Bond Reserve Account to the Revenue Bond Account, each transfer to that subaccount shall be at least equal to 1/12 of the difference between the applicable Reserve Requirement and the balance in the subaccount on the Valuation Date.

If the deficiency is due to a change in the value of investments, each transfer to a subaccount in the Revenue Bond Reserve Account shall be at least equal to 1/4 of the difference between the Reserve Requirement for that subaccount and the balance in that subaccount on the Valuation Date.

The "difference between the Reserve Requirement and the balance in the Revenue Bond Reserve Account on the Valuation Date" shall be calculated by including all amounts then owed under Reserve Credit Facilities that were issued for any Series that is secured by that subaccount, including any interest, fees and penalties associated with any draws under a Reserve Credit Facilities.

Revenue Bond Account Investments and Earnings

Funds in the Revenue Bond Reserve Account may be invested only in Permitted Investments that mature no later than the final maturity date of the Bonds. Earnings on each subaccount of the Revenue Bond Reserve Account will be credited to that subaccount whenever the balance in that subaccount is less than the Reserve Requirement. Otherwise earnings will be credited to the Revenue Bond Account.

If the value of the investments in any subaccount of the Revenue Bond Reserve Account on a Valuation Date exceeds the Reserve Requirement, the City may transfer the excess to any account of the Water Enterprise Fund.

Permitted Investments in each subaccount of the Revenue Bond Reserve Account will be valued on each Valuation Date in the following manner:

- i. Demand deposits, deposits in the Oregon Short Term Fund and investments which mature in two years or less after the Valuation Date will be valued at their face amount, plus accrued interest;
- ii. Investments which mature more than two years after the Valuation Date and for which bid and asked prices are published on a regular basis in the Wall Street Journal (or, if not there, then in the New York Times) will be valued at the average of their most recently published bid and asked prices;
- iii. Investments which mature more than two years after the Valuation Date and for which the bid and asked prices are not published on a regular basis in the Wall Street Journal or the New York Times will be valued at the average bid price quoted by any two nationally recognized government securities dealers (selected by the City in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service;
- iv. Reserve Credit Facilities will be valued at the amount which is available to be drawn or paid under them;
- v. Certificates of deposit and bankers acceptances which mature more than two years after the Valuation Date will be valued at their face amount, plus accrued interest; and
- vi. Any investment which is not specified above and which matures more than two years after the Valuation Date will be valued at its fair market value as reasonably estimated by the City.

Payment of Bonds from Revenue Bond Reserve Account

All amounts on deposit in a subaccount of the Revenue Bond Reserve Account may be applied to the final payment of all Outstanding Bonds that are secured by that subaccount, whether at maturity, by prior Redemption or by means of a defeasance. Amounts so applied will be credited against the amounts the City is required to transfer into the Revenue Bond Account from Net Revenues.

Any Ordinance authorizing the issuance of a Series of Bonds must require a deposit into the applicable subaccount of the Revenue Bond Reserve Account in amounts sufficient to make the balance in that subaccount at least equal to the Reserve Requirement. The City may elect to fund these deposits in not more than five annual installments, with the final installment due not later than the fifth anniversary of the issuance of the Series of Bonds. If the City elects to fund the portion of the Reserve Requirement which is allocable to a Series of Bonds in installments, the election and the schedule for such deposits will be stated prominently in the proceedings authorizing the Series of Bonds.

Subordinate Obligations Account

If the City issues Subordinate Obligations, the City will create and maintain the Subordinate Obligations Account as long as the Subordinate Obligations are outstanding.

Charter General Obligation Bond Account

The City will maintain a Charter General Obligation Bond Account, into which it will deposit Net Revenues sufficient to pay bonds issued under Section 11-103 of the City Charter.

Capital Renewal Account

The Capital Renewal Account is created within the Water Enterprise Fund. Net Revenues will be transferred to the Capital Renewal Account on the last day of each fiscal year in the aggregate amount of not less than \$5,000,000. Amounts in the Capital Renewal Account will be used solely to pay for capital costs of the Water System, including costs repairing, replacing, improving and expanding the Water System. Earnings on the Capital Renewal Account will be credited to the Water Enterprise Fund.

Rate Covenant

The City covenants for the benefit of the Owners that it will establish and maintain rates and charges in connection with the operation of the Water System which are sufficient to permit the City to pay all Operating Expenses and all lawful charges against the Net Revenues, and to make all transfers required by this Ordinance to all accounts, and to pay any franchise fees or similar charges imposed by the City on the Water System or its operations.

The City further covenants for the benefit of the Owners of all Bonds that it will 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 each Fiscal Year at least equal to one hundred twenty-five percent (125.00%) of Annual Debt Service due in that Fiscal Year.

Not later than ninety days after the end of each fiscal year the City will file a certified report with the Director and the City Auditor which demonstrates whether the City has generated adequate revenues as described above during that fiscal year. If the report demonstrates that the City has not generated adequate revenues during that fiscal year, it will not constitute an Event of Default if:

- i. within thirty days after the report is filed, the City engages the services of a Qualified Consultant; and,
- ii. within sixty days after the report is filed, the Qualified Consultant recommends a schedule of rates and charges or other actions which the Qualified Consultant reasonably projects will permit the City to generate adequate revenues for the then current fiscal year; and,
- iii. within ninety days after the report is filed the City implements the recommendations of the Qualified Consultant.

Treatment of Capital Charges

The City may elect to treat Capital Charges in two ways:

- i. the Capital Charges may be treated as Gross Revenues; or,
- ii. the City may exclude the Capital Charges from Gross Revenues, borrow money and issue obligations which are secured by those charges, and treat the net proceeds of the borrowing as Gross Revenues.

Capital Charges which are treated as Gross Revenues are defined as "Capital Charge Revenues;" Capital Charges which are committed to pay obligations, the proceeds of which are treated as a Gross Revenue, are defined as "Committed Capital Charges;" the net proceeds of those obligations which are treated as Gross Revenues are defined as "Capital Charge Proceeds;" and the obligations which produce Capital Charge Proceeds are defined as "Capital Charge Obligations." Capital Charge Revenues and the net proceeds of Capital Charge Obligations shall be deposited in the Water Enterprise Fund.

An election to treat an issue of obligations as Capital Charge Obligations may be made in the proceedings authorizing issuance of the Capital Charge Obligations; if it is not so made, it will be deemed made by the manner in which the proceeds of the obligations are treated in the report filed with the Director and the City Auditor showing compliance with the rate covenant. This election may be changed only if the City demonstrates that the change would not have caused the City to fail to meet the requirements of the rate covenant in any fiscal year prior to the fiscal year in which the change is made, if the change had been made on the date the obligations were issued.

Parity Obligations

The City may issue Parity Obligations to provide funds for any purpose relating to the Water System, only if:

- i. there is no Event of Default under the First Lien Bond Ordinance or any Supplemental Ordinance
- ii. there is no deficiency in the Revenue Bond Account and the balance in the Reserve Revenue Bond Reserve Account is at least equal to the Reserve Requirement;
- iii. any Supplemental Ordinance authorizing Parity Obligations contains a covenant requiring the City to 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 proposed Parity Obligations treated as Outstanding;
- iv. there has been filed with the City either:
 - (a) a certificate of the Director stating that Net Revenues for the Base Period were not less than one hundred twenty-five percent (125.00%) of the average Annual Debt Service on all Outstanding Bonds, with the proposed Parity Obligations treated as Outstanding; or,
 - (b) a certificate or opinion of a Qualified Consultant stating the amount of the Adjusted Net Revenues computed as provided in the First Lien Bond Ordinance is not less than the sum of one hundred twenty-five percent (125.00%) of the average Annual Debt Service on all Outstanding Bonds, with the Proposed Parity Obligations treated as Outstanding.

Net Revenues may be adjusted for purposes of the Director's certificate by adding any Net Revenues the Director calculates the City would have had during the Base Period because of increases in Water System rates, fees and charges which took affect after the beginning of the Base Period. However, no adjustment will be made for these increases unless they have been approved by the Council prior to delivery of the Proposed Parity Obligations and are required to take effect no later than sixty days after the delivery of the proposed Parity Obligations.

Adjusted Net Revenues will be computed by adjusting the Net Revenues for the Base Period in any of the following ways:

- i. if the Bonds are being issued for the purpose of acquiring operating Water System utility properties having an earnings record, the Qualified Consultant may estimate the effect on the Net Revenues for the Base Period if the Water System utility properties had been part of the Water System during the Base Period. The estimate will be based on the operating experience and records of the City and any available financial and records relating to the Water System utility properties which will be acquired;
- ii. to reflect any changes in rates and charges have been adopted by the City Council and which: 1) are in effect on the date of sale and delivery of the Bonds; or, 2) are to go into effect not later than twelve months after such date, and were not in effect during the entire Base Period;
- iii. to reflect any customers added to the Water System after the beginning of the Base Period and prior to the date of the Qualified Consultant's certificate;
- iv. if extensions of or additions to the Water System are in the process of construction on the date of the Qualified Consultant's certificate, or if the proceeds of the Bonds being issued are to be used to acquire or construct extensions of or additions to the Water System, to reflect any additional Net Revenues not included in the preceding paragraphs that will be derived from such additions and extensions (after deducting the estimated increase in operating and maintenance expenses resulting from such additions and extensions).

The City may issue Parity Obligations to refund Outstanding Bonds without complying with the above, if the refunded Bonds are defeased on the date of delivery of the refunding Parity Obligations and if the Annual Debt Service on the refunding Parity Obligations does not exceed the Annual Debt Service on the refunded Bonds in any Fiscal Year by more than \$5,000.

Parity Derivatives

A Derivative Product may be a Parity Derivative Product and a Parity Obligation if the obligation to make City Payments under the Derivative Product qualifies as a Parity Obligation under this Ordinance and after the Reciprocal Payments under the

Derivative Product are applied to reduce Annual Debt Service. Any Parity Derivative Product will clearly state that it is a Parity Derivative Product and has qualified as a Parity Obligation under the First Lien Bond Ordinance.

All Parity Obligations issued in accordance with the First Lien Bond Ordinance will have a lien on the Net Revenues which is equal to the lien of all other Outstanding Bonds.

Subordinate Obligations

The City may issue Subordinate Obligations only if: 1) the Subordinate Obligations are payable solely from amounts permitted to be deposited in the Subordinate Obligations Account pursuant to the Ordinance; 2) the Subordinate Obligations are not subject to acceleration; and, 3) the Subordinate Obligations state clearly that they are secured by a lien on or pledge of the Net Revenues which is subordinate to the lien on, and pledge of, the Net Revenues for the Bonds.

Separate Utility System

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

General Covenants

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

- i. that it will 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 the First Lien Bond Ordinance and any Supplemental Ordinance.
- ii. that it will maintain complete books and records relating to the operation of the Water System and all City funds and accounts 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 Bondowners.
- iii. that it will not issue Bonds or other obligations having a claim superior to the claim of the Bonds upon the Net Revenues.
- iv. that it will promptly deposit into all funds and accounts all sums required to be so deposited.
- v. that it shall cause the Water System to be operated at all times in a safe, sound, efficient and economic manner in compliance with all health, safety and environmental laws, regulatory body rules, regulatory body orders and court orders applicable to the City's operation and ownership of the Water System, and shall cause the Water System to be maintained, preserved, reconstructed, expanded and kept, with all appurtenances and every part and parcel thereof, in good repair, working order and condition, and shall from time to time cause to be made, without undue deferral, all necessary or proper repairs, replacements and renewals so that at all times the operation of the Water System shall be properly and advantageously conducted.
- vi. that it will not enter into any agreement to provide Water System products or services at a discount from published rate schedules, and that it will not provide free Water System products or services except for fire suppression and in case of emergencies.
- vii. that it will at all times maintain with responsible insurers all such insurance on the Water System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties.

- viii. the net proceeds of insurance against accident to or destruction of the Water System will be used to repair or rebuild the damaged or destroyed Water System, and to the extent not so applied, will be applied to the payment or redemption of the Bonds on a pro rata basis.
- ix. that insurance described in paragraph vi, above, will be in the form of policies or contracts for insurance with insurers of good standing and will be payable to the City, or in the form of self-insurance by the City. The City will establish such fund or funds or reserves which it deems are necessary to provide for its share of any such self-insurance.

Disposition of the Water System

The City will not, nor will it permit others to, sell, mortgage, lease or otherwise dispose of or encumber all or any portion of the Water System, except as provided below.

The City may dispose of all or substantially all of the Water System if the City pays or defeases the Bonds.

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

Otherwise, the City will not dispose of any part of the Water System in excess of 5% of the value of the Water System in service unless prior to such disposition there has been filed with the City a certificate of a Qualified Consultant stating that such disposition will not impair the ability of the City to comply with the rate covenants contained in the First Lien Bond Ordinance; or provision is made for the payment, redemption or other defeasance of a principal amount of Bonds equal to the greater of the following amounts:

- i. an amount which will be in the same proportion to the net principal amount of Bonds then Outstanding (defined as the total principal amount of Bonds then Outstanding less the amount of cash and investments in the Sinking Fund) that the Gross Revenues attributable to the part of the Water System sold or disposed of for the 12 preceding months bears to the total Gross Revenues for such period; or
- ii. an amount which will be in the same proportion to the net principal amount of Bonds then Outstanding that the book value of the part of the Water System sold or disposed of bears to the book value of the Water System immediately prior to such sale or disposition.

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

Leases

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

Events of Default and Remedies

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

The following will constitute "Events of Default":

- i. if the City fails to pay any Bond principal or interest when due, either at maturity, upon exercise of a right of tender, by proceedings for redemption or otherwise;
- ii. if the City defaults in the observance and performance of any other of its covenants, conditions and agreements in the First Lien Bond Ordinance, and if such default continues for ninety (90) days after the City receives a written notice, specifying the Event of Default and demanding the cure of such default, from the Bondowners Committee or from the Owners of not less than 20% in aggregate principal amount of the Bonds Outstanding (however, it will not constitute an Event of Default if the default cannot practicably be remedied within ninety days after the City receives notice of the default, so long as the City promptly commences reasonable action to remedy the default after the notice is received, and continues reasonable action to remedy the default until the default is remedied);
- iii. if the City sells, transfers, assigns or conveys any properties constituting the Water System in violation of the First Lien Bond Ordinance.;
- iv. if an order, judgment or decree is entered by any court of competent jurisdiction, appointing a receiver, trustee or liquidator for the City or the whole or any part of the Water System; approving a petition filed against the City seeking the bankruptcy, arrangement or reorganization of the City under any applicable law of the United States or the State; or assuming custody or control of the City or of the whole or any part of the Water System under the provisions of any other law for the relief or aid of debtors and such order, judgment or decree shall not be vacated or set aside or stayed (or, in case custody or control is assumed by said order, such custody or control shall not be otherwise terminated) within sixty (60) days from the date of the entry of such order, judgment or decree; or
- v. if the City will 1) admit in writing its inability to pay its debts generally as they become due; 2) file a petition in bankruptcy or seeking a composition of indebtedness under any state or federal bankruptcy or insolvency law; 3) make an assignment for the benefit of its creditors; 4) consent to the appointment of a receiver of the whole or any part of the Water System; or 5) consent to the assumption by any court of competent jurisdiction under the provisions of any other law for the relief or aid of debtors of custody or control of the City or of the whole or any part of the Water System.

Remedies

If an Event of Default occurs, any Bondowner may exercise any remedy available at law or in equity. However, the Bonds will not be subject to acceleration.

The City covenants that if an Event of Default occurs and has not been remedied, the books of record and accounts of the City and all other records relating to the Water System will at all reasonable times be subject to the inspection and use of the Bondowners Committee and any persons holding at least twenty percent (20%) of the principal amount of Outstanding Bonds and their respective agents and attorneys.

The City covenants that if the Event of Default occurs and has not been remedied, the City will continue to account, as a trustee of an express trust, for all Net Revenues and other moneys, securities and funds pledged under the First Lien Bond Ordinance.

Waivers of Event of Default

A Bondowner may exercise any right or power they have arising from an Event of Default at any time. Any delay or omission to act by any Bondowner will not be construed to be a waiver of the Event of Default or an acquiescence to an Event of Default.; Every power and remedy given by this Ordinance to the Bondowners may be exercised from time to time and as often as may be deemed expedient by the Bondowners.

The owners of at least fifty percent (50%) of the Outstanding principal amount of the affected Bonds, or their attorneys-in-fact duly authorized, may, waive any past default under the First Lien Bond Ordinance with respect to such Bonds and its consequences. This does not apply to a default in the payment of the principal, premium, or interest on any of the Bonds. No such waiver will extend to any subsequent or other default or impair any right consequent which may arise.

No remedy by the terms of the First Lien Bond Ordinance conferred upon or reserved to the Bondowners is intended to be exclusive of any other remedy. Each and every remedy will be cumulative and will be in addition to every other remedy given under the First Lien Bond Ordinance or existing at law or in equity or by statute on or after the date of adoption of the First Lien Bond Ordinance.

Amendment of First Lien Bond Ordinance

The First Lien Bond Ordinance may be amended by Supplemental Ordinance without the consent of any Bondowners for any one or more of the following purposes:

- i. To cure any ambiguity or formal defect or omission in the First Lien Bond Ordinance;
- ii. To add covenants and agreements of the City to the First Lien Bond Ordinance, which are not contrary to or inconsistent with the First Lien Bond Ordinance;
- iii. To authorize issuance of Bonds or Subordinate Obligations;
- iv. To authorize Parity Derivative Products, and specify the rights and duties of the parties to a Parity Derivative Product;
- v. To modify, amend or supplement the First Lien Bond Ordinance or any Supplemental Ordinance to qualify the First Lien Bond Ordinance under the Trust Indenture Act of 1939, or any similar federal statute;
- vi. To confirm, as further assurance, any security interest or pledge created under the First Lien Bond Ordinance or any Supplemental Ordinance;
- vii. To make any change which, in the reasonable judgment of the City, does not materially and adversely affect the rights of the owners of any Outstanding Bonds;
- viii. To make any other change which is consented to in writing by the issuer of such Credit Facility other than any change which: 1) would result in a downgrading or withdrawal of the rating then assigned to the affected Bonds by the Rating Agencies; 2) changes the maturity (except as permitted in the Ordinance), the Interest Payment Dates, interest rates, redemption and purchase provisions, and provisions regarding notices of redemption and purchase applicable to the affected Bonds or diminishes the security afforded by such Credit Facility; 3) materially and adversely affects the rights and security afforded to the Owners of any Outstanding Bonds not secured by such Credit Facility; or, 4) modifies any of the provisions of the First Lien Bond Ordinance or any Supplemental Ordinance in any other respect whatever, as long as the modification will take effect only after all affected Outstanding Bonds cease to be Outstanding

The First Lien Bond Ordinance may be amended for any other purpose only upon consent of Bondowners who own at least fifty-one percent 51% in aggregate principal amount of the Bonds outstanding. However, no amendment will be valid without the consent of Bondowners of 100 percent of the aggregate principal amount of the Bonds outstanding which:

- i. Extends the maturity of any Bond, reduces the rate of interest upon any Bond, extends the time of payment of interest on any Bond, reduces the amount of principal payable on any Bond, or reduces any premium payable on any Bond, without the consent of the affected Bondowner; or
- ii. Reduces the percent of Bondowners required to approve amendatory Ordinances.

Except as otherwise expressly provided in a Supplemental Ordinance, as long as a Credit Facility (other than a Reserve Credit Facility) securing all or a portion of any Outstanding Bonds is in effect, the issuer of such Credit Facility shall be deemed to be the Bondowner of the Bonds secured by such Credit Facility.

Notwithstanding the foregoing, the issuer of such Credit Facility shall not be deemed to be a Bondowner secured thereby with respect to any such Supplemental Ordinance or of any amendment, change or modification of the First Lien Bond Ordinance which: would result in a downgrading or withdrawal of the rating then assigned to the affected Bonds by the Rating Agencies; or, changes the maturity (except as expressly permitted herein), the Interest Payment Dates, interest rates, redemption and purchase

provisions, and provisions regarding notices of redemption and purchase applicable to the affected Bonds or diminishes the security afforded by such Credit Facility; or, reduces the percentage or otherwise affects the classes of affected Bonds, the consent of the Bondowners of which is required to effect any such modification or amendment.

In addition and notwithstanding the foregoing, no issuer of a Credit Facility given as security for any Bonds shall be entitled to exercise any rights as a Bondowner during any period where: the Credit Agreement or Credit Facility to which such Credit Provider is a party shall not be in full force and effect; such Credit Provider shall have filed a petition or otherwise sought relief under any federal or state bankruptcy or similar law; such Credit Provider shall, for any reason, have failed or refused to honor a proper demand for payment under such Credit Facility; or an order or decree shall have been entered, with the consent or acquiescence of such Credit Provider, appointing a receiver or receivers or the assets of the Credit Provider, or if such order or decree having been entered without the consent or acquiescence of such Credit Provider, shall not have been vacated or discharged or stayed within ninety (90) days after the entry thereof.

For purposes of determining the percentage of Bondowners consenting to, waiving or otherwise acting with respect to any matter that may arise under the First Lien Bond Ordinance, the Owners of Bonds which pay interest only at maturity, and mature more than one year after they are issued will 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.

Defeasance

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

- i. irrevocably depositing cash or noncallable, nonprepayable Direct Obligations in escrow with an independent escrow agent which are calculated to be sufficient for the payment of Bonds which are to be defeased;
- ii. filing with the escrow agent an opinion from a Qualified Consultant to the effect that the money and the principal and interest to be received from the Direct Obligations are calculated to be sufficient, without further reinvestment, to pay the defeased Bonds when due; and,
- iii. filing with the escrow agent an opinion of nationally recognized bond counsel that the proposed defeasance will not cause interest on the defeased Bonds to be includable in gross income under the Code.

If Bonds are defeased, all obligations of the City with respect to those defeased Bonds will cease and terminate. The City, the escrow agent and the Registrar will pay the defeased Bonds from the amounts deposited in escrow. The Registrar will continue to transfer bonds as provided in the First Lien Bond Ordinance.



APPENDIX B
EXCERPTS OF AUDITED FINANCIAL STATEMENTS



INTRODUCTION TO FINANCIAL STATEMENTS

The financial statements of the City have been audited by independent certified public accountants for the fiscal years 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 City's website is listed for reference only, and is not part of this Official Statement.

The following pages in this Appendix B are excerpted from the Comprehensive Annual Financial Reports of the City for the Fiscal Years ending June 30, 2007 through June 30, 2011.

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 SERIES A BONDS AND IS THEREFORE NOT ASSOCIATED WITH THE OFFERING OF THE 2012 SERIES A BONDS.



CITY OF PORTLAND, OREGON
Water Fund
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Years Ended June 30

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Operating revenues:					
Service charges and fees	\$93,864,031	\$96,645,344	\$101,383,963	\$111,729,058	\$116,880,716
Rents and reimbursements				573,540	-
Miscellaneous	-	-	344,630	399,504	550,292
Total operating revenues	93,864,031	96,645,344	101,728,593	112,702,102	117,431,008
Operating expenses:					
Salaries and wages	28,640,782	34,693,069	35,779,508	34,821,290	36,384,329
Operating supplies	3,760,424	3,280,815	3,738,907	2,827,294	3,158,064
Professional services	11,783,049	12,606,404	19,163,084	14,253,033	10,180,743
Utilities	3,778,407	3,507,077	2,003,828	2,350,643	2,262,663
Miscellaneous	4,974,412	7,269,187	1,215,312	10,864,140	11,146,714
Utility license fees	4,281,728	4,392,061	4,275,133	4,339,850	4,525,967
Depreciation expense	18,671,956	18,695,953	20,672,524	20,129,384	21,050,971
Total operating expenses	75,890,758	84,444,566	86,848,296	89,497,654	88,797,431
Operating income (loss)	17,973,273	12,200,778	14,880,297	23,204,448	28,633,577
Nonoperating revenues (expenses):					
Gain (loss) on sale of fixed assets	(48,942)	(205,343)	(269,881)	(331,230)	(373,494)
Investment earnings	4,095,485	3,011,424	3,039,569	189,392	1,320,366
Interest expense	(10,830,010)	(9,582,977)	(11,143,410)	(10,979,221)	(14,667,846)
Debt issuance costs	(913,462)	-	(232,315)	(268,832)	(470,741)
Miscellaneous	4,253,439	2,701,849	(410,659)	0	569,635
Total nonoperating revenues (expenses)	(3,443,490)	(4,075,047)	(9,016,696)	(11,389,891)	(13,622,080)
Income (loss) before contributions and transfers	14,529,783	8,125,731	5,863,601	11,814,557	15,011,497
Transfers in	-	-	450,000	50,630	101,478
Transfers out	(471,147)	(733,488)	(582,291)	(523,241)	(466,889)
Capital contributions	218,134	4,291,238	599,567	-	2,990,277
Change in net assets	14,276,770	11,683,481	6,330,877	11,341,946	17,636,363
Total net assets -- beginning	362,313,709	376,590,479	388,273,960	394,604,837	405,946,783
Total net assets -- beginning, as restated	362,313,709	376,590,479	388,273,960	394,604,837	405,946,783
Total net assets -- ending	\$376,590,479	\$388,273,960	\$394,604,837	\$405,946,783	\$423,583,146

Source: City of Portland. Audited financial statements.

CITY OF PORTLAND, OREGON
Water Fund
Statement of Net Assets
As of June 30

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
ASSETS					
Current assets (unrestricted):					
Cash and investments	\$39,504,975	\$35,786,921	\$42,142,347	\$39,584,067	\$48,790,800
Receivables					
Accounts, net	11,767,708	11,798,352	12,996,974	14,201,799	16,228,558
Assessments	-	-	109,311	102,448	124,581
Accrued interest	879,351	286,098	682,004	335,572	432,984
Due from other funds	6,281,378	5,373,159	1,591,867	1,286,623	380,883
Inventories	1,789,428	1,971,973	2,234,189	2,164,577	2,143,957
Prepaid expenses	-	-	421,535	415,664	-
Total current assets (unrestricted)	60,222,840	55,216,503	60,178,227	58,090,750	68,101,763
Current assets (restricted):					
Cash and investments	35,607,906	5,500,000	6,912,957	4,188,568	5,241,008
Total current assets (restricted)	35,607,906	5,500,000	6,912,957	4,188,568	5,241,008
Total current assets	95,830,746	60,716,503	67,091,184	62,279,318	73,342,771
Noncurrent assets (unrestricted):					
Capital assets, not being depreciated or amortized:					
Land	16,994,596	17,007,946	17,007,946	15,075,102	15,075,220
Construction in progress	32,872,905	34,587,011	85,678,528	90,420,139	89,146,868
Intangible assets:					
Land use rights	-	-	72,306	2,302,607	2,315,561
Capital assets being depreciated or amortized:					
Infrastructure	671,298,583	725,119,444	740,960,777	794,980,942	854,794,631
Plant, buildings and improvements	23,852,103	29,490,372	30,834,581	37,958,383	46,116,359
Machinery and equipment	29,334,494	30,207,566	29,984,461	27,847,600	28,102,876
Intangible assets:					
Owning rights	-	-	-	-	10,776
Software	-	-	-	2,714,181	2,818,986
Capitalized leases	2,321,651	-	-	-	-
Accumulated depreciation and amortization	(257,780,571)	(271,775,715)	(288,989,287)	(307,871,178)	(325,289,035)
Capital assets net of accumulated depreciation and amortization	518,893,761	564,636,624	615,549,312	663,427,776	713,092,242
Pre-paid expense	26,173,309	25,005,726	23,838,143	22,670,560	21,502,977
Water rights	72,306	72,306	-	-	-
Total non-current assets (unrestricted)	545,139,376	589,714,656	639,387,455	686,098,336	734,595,219
Noncurrent assets (restricted):					
Cash and investments:	-	-	20,518,173	45,593,821	76,748,157
Total non-current assets	545,139,376	589,714,656	659,905,628	731,692,157	811,343,376
Total assets	640,970,122	650,431,159	726,996,812	793,971,475	884,686,147

CITY OF PORTLAND, OREGON
Water Fund
Statement of Net Assets (continued)
As of June 30

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
LIABILITIES					
Current liabilities (payable from unrestricted assets):					
Accounts payable	3,375,416	9,464,909	3,572,072	5,671,532	3,925,850
Due to other funds	-	220,500	-	-	-
Compensated absences	2,781,505	2,443,415	2,830,726	2,846,782	3,203,526
Capital leases payable - current	-	-	-	-	-
Unearned revenue	197,812	176,261	232,363	238,938	199,511
Bonds payable	9,678,620	10,252,410	12,591,336	15,066,994	15,788,553
General obligation bonds payable - current	-	-	-	-	-
Revenue bonds payable - current	-	-	-	-	-
Accrued interest payable - current	2,551,451	2,427,321	2,927,529	3,836,408	4,041,439
Other liabilities - current	3,434,411	4,103,457	676,218	336,881	239,166
Total current liabilities (unrestricted)	22,019,215	29,088,273	22,830,244	27,997,535	27,398,045
Current liabilities (payable from restricted assets):					
Accounts payable	-	-	6,912,957	4,188,568	5,241,008
Total current liabilities (restricted)	-	-	6,912,957	4,188,568	5,241,008
Total current liabilities	22,019,215	29,088,273	29,743,201	32,186,103	32,639,053
Noncurrent liabilities:					
Compensated absences	583,582	1,005,523	1,974,573	966,468	720,992
Revenue bonds payable	-	-	-	-	-
Bonds payable	239,078,525	228,235,901	295,683,735	348,863,029	419,608,747
Accrued interest payable	2,698,321	3,375,450	4,107,369	4,898,411	-
Other postemployment benefits	-	452,052	883,097	1,110,681	1,402,975
Total noncurrent liabilities	242,360,428	233,068,926	302,648,774	355,838,589	428,463,948
Total liabilities	264,379,643	262,157,199	332,391,975	388,024,692	461,103,001
NET ASSETS					
Invested in capital assets, net of related debt	338,472,779	360,322,950	340,751,468	371,676,008	386,042,325
Restricted for:					
Debt service	-	5,500,000	5,398,600	10,224,969	-
Capital projects	-	-	-	35,368,796	-
Unrestricted	38,117,700	22,451,010	48,454,769	(11,322,990)	37,540,821
Total net assets	\$376,590,479	\$388,273,960	\$394,604,837	\$405,946,783	\$423,583,146

Source: City of Portland. Audited financial statements.

CITY OF PORTLAND, OREGON
Water Fund
Statement of Cash Flows
For Fiscal Years Ended June 30

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITY					
Receipts from customers and users	\$78,912,098	\$90,296,261	\$98,505,064	\$107,703,270	\$112,611,576
Receipts from interfund services provided	7,381,710	6,504,500	5,331,456	4,025,014	4,004,508
Payments to suppliers	(14,958,395)	(10,161,493)	(14,629,903)	(13,645,889)	(11,052,326)
Payments to employees	(27,846,252)	(34,157,166)	(33,992,102)	(34,418,172)	(34,813,184)
Payments for interfund services used	(11,942,892)	(13,396,950)	(18,656,197)	(21,789,170)	(21,119,569)
Other receipts (payments)	(4,273)	-	-	86,971	87,436
Net cash provided by operating activities	31,541,996	39,085,152	36,558,318	41,962,024	49,718,441
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES					
Other noncapital increases	6,272,931	5,051,640	756,922	-	-
Other noncapital decreases	(851,909)	(1,182,208)	-	-	-
Miscellaneous revenues (expenses)	-	-	-	-	569,635
Transfers in	-	-	450,000	50,630	49,374
Transfers out	(471,147)	(733,488)	(582,291)	(523,241)	(408,987)
Net cash provided (used) by noncapital financing activities	4,949,875	3,135,944	624,631	(472,611)	210,022
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sale of bonds and notes	112,970,000	-	79,680,000	73,440,000	86,534,272
Premium on bonds and notes issued	2,425,930	-	952,459	1,951,293	-
Sale of capital assets	342,527	202,276	295,731	170,864	207,661
Acquisiton of capital assets	(54,683,885)	(60,555,197)	(71,478,950)	(68,509,942)	(68,312,114)
Principal paid on bonds, notes, capital leases	(51,422,939)	(9,678,620)	(10,252,410)	(19,171,336)	(14,381,665)
Interest paid on bonds, notes, capital leases	(10,637,578)	(9,620,192)	(10,504,571)	(9,844,305)	(13,315,321)
Bond issuance costs	(913,462)	-	(232,315)	(268,832)	(470,741)
Net cash provided (used) by capital related financing activities	(1,919,407)	(79,651,733)	(11,540,056)	(22,232,258)	(9,737,908)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest on investments	3,461,838	3,604,677	2,643,663	535,824	1,222,954
Net increase (decrease) in cash and cash equivalents	38,034,302	(33,825,960)	28,286,556	19,792,979	41,413,509
CASH AND CASH EQUIVALENTS July 1, Prior Year	37,078,579	75,112,881	41,286,921	69,573,477	89,366,456
CASH AND CASH EQUIVALENTS June 30, Current Year	<u>\$75,112,881</u>	<u>\$41,286,921</u>	<u>\$69,573,477</u>	<u>\$89,366,456</u>	<u>\$130,779,965</u>
Reconciliation of Cash and Cash Equivalents to the Statements of Net Assets:					
Unrestricted cash and cash equivalents			\$42,142,347	\$39,584,067	\$48,790,800
Restricted cash and cash equivalents			27,431,130	49,782,389	81,989,165
Total			<u>\$69,573,477</u>	<u>\$89,366,456</u>	<u>\$130,779,965</u>

CITY OF PORTLAND, OREGON
Water Fund
Statement of Cash Flows (continued)
For Fiscal Years Ended June 30

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Reconciliation of operating income (loss) to net cash provided by operating activities					
Operating income (loss)	\$17,973,273	\$12,200,778	\$14,880,297	\$23,204,448	\$28,633,577
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization of capital assets	18,671,956	18,695,953	20,672,524	20,129,384	21,050,971
Provision for uncollectible accounts	240,324	700,607	1,039,138	1,029,366	887,159
Change in assets and liabilities:					
Accounts and contracts receivable	(4,347,209)	(731,251)	(2,347,070)	(1,053,874)	(1,352,804)
Inventories	(333,726)	(182,545)	(262,216)	69,612	20,620
Checks and accounts payable	(183,269)	6,089,493	1,020,119	(624,929)	(693,242)
Accrued compensated absences	794,532	83,851	1,356,361	(992,049)	111,268
Due from (to) other funds	(3,214,465)	1,128,719	3,560,792	305,244	905,740
Other assets	-	-	(421,535)	-	-
Deferred revenue	(8,551)	(21,551)	56,102	6,575	(39,427)
Other accrued liabilities	1,949,131	669,046	(3,427,239)	(339,337)	(97,715)
Accrued other postemployment benefits	-	452,052	431,045	227,584	292,294
Net cash provided by operating activities	<u>\$31,541,996</u>	<u>\$39,085,152</u>	<u>\$36,558,318</u>	<u>\$41,962,024</u>	<u>\$49,718,441</u>
Noncash information					
Non-operating prepaid PERS amortization	\$1,167,583	\$1,167,583	\$1,167,583	\$1,167,583	(1,167,583)
Capital contribution	218,134	4,291,238	599,567	-	2,990,277
Increase in fair value of investments (classified as cash equivalents)	-	169,679	419,100	(760,626)	670,088

Source: City of Portland. Audited financial statements



APPENDIX C
CITY OPERATING AND FINANCIAL INFORMATION



CITY OPERATING AND FINANCIAL INFORMATION

FISCAL YEAR

July 1 to June 30.

BASIS OF ACCOUNTING

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

FINANCIAL REPORTING AND BUDGETING

Financial Reporting

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

Budget Process

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

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.

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 Official Statement. Excerpts of the City's audited financial statements for the City's Water Fund on a Generally Accepted

Accounting Principles (GAAP) basis are found in Appendix B. See Appendix B, "EXCERPTS OF AUDITED FINANCIAL STATEMENTS," herein.

INSURANCE

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

Workers' compensation, general and fleet liability estimates are primarily based on individual case estimates for reported claims and through historical data for unreported claims as determined by the City's Risk Management 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 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 until November 11, 2012. After that date, the limits of excess liability policy will be \$10 million per claim above the \$1 million self-insured 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 \$600,000 for causes of action arising on or after July 1, 2012, and before July 1, 2013. This cap increases incrementally through June 30, 2015, to \$666,700. The liability limits to all claimants for covered personal injury or death claims (and not property claims) arising from a single accident or occurrence increases to \$1,266,700 for causes of action arising on or after July 1, 2012, and before July 1, 2013, 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, 2012, and before July 1, 2013, are as follows: (a) \$104,300 for any single claimant and (b) \$521,400 to all claimants. These liability limits are adjusted based on a determination by a State Court Administrator of the percentage increase or decrease in the cost of living for the previous calendar year as provided in the formula in ORS 30.273. The adjustment may not exceed three percent for any year.

PENSION PLANS

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

	2009	2010
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 the Retiree Health Insurance Premium Account (“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 C-2
CITY OF PORTLAND, OREGON
Current Employer Contribution Rates and Advisory Rates
(Percentage of Covered Payroll)

	Current Rates 2011-2013			Advisory Rates 2013-15		
	T1/T2	OPSRP General	OPSRP P&F	T1/T2	OPSRP General	OPSRP P&F
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 C-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 is underway 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.



APPENDIX D
LEGAL OPINION



_____, 2012

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

Subject: \$[principal] City of Portland, Oregon, First Lien Water System Revenue Bonds
2012 Series A

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Portland, Oregon (the "City") of its First Lien Water System Revenue Bonds, 2012 Series A (the "2012 Bonds"), which are dated as of their date of delivery and are in the aggregate principal amount of [principal]. The 2012 Bonds are issued pursuant to City Ordinance No. 174241 as amended, and City Ordinance No. ____ adopted by the City Council on ____, 2012 (collectively, the "Ordinances"), and a Bond Declaration dated as of the date of delivery of the 2012 Bonds (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 Ordinances 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 Ordinances. 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 that are secured solely by and payable solely from the Net Revenues of the Water System and amounts required to be deposited in the Revenue Bond Account and the Revenue Bond Reserve Account, as provided in the Ordinances and the Declaration.
3. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described below, (i) interest on the 2012 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 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering our opinion, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the City and others in connection with the 2012 Bonds, and we have assumed compliance by the City and others with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the 2012 Bonds from gross income under Section 103 of the Code.

The Code establishes certain requirements that must be met subsequent to the issuance and delivery of the 2012 Bonds in order that, for Federal income tax purposes, interest on the 2012 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 2012 Bond proceeds, restrictions on the investment of 2012 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 2012 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 2012 Bonds, the City will execute a Tax Certificate (the "Tax Certificate") containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Certificate, the City covenants that it will comply with the provisions and procedures set forth therein and that it will do and perform all acts and things necessary or desirable to assure that interest paid on the 2012 Bonds will, for Federal income tax purposes, be excluded from gross income.

In rendering the opinion in paragraph 3 hereof, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Certificate with respect to matters affecting the status of interest paid on the 2012 Bonds, and (ii) compliance by the City with the procedures and covenants set forth in the Tax Certificate as to such tax matters.

4. Interest on the 2012 Bonds is exempt from Oregon personal income tax.

Except as stated in paragraphs 3 and 4 above, we express no opinion as to any other Federal, state or local tax consequences arising with respect to the 2012 Bonds or the ownership or disposition thereof. We render our opinion under existing statutes and court decisions as of the issue date, and we assume no obligation to update, revise or supplement this opinion after the issue date to reflect any action hereafter taken or not taken, or any facts or circumstances, or any change in law or in interpretations thereof, or otherwise, that may hereafter arise or occur, or for any other reason.

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 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,

APPENDIX E
CONTINUING DISCLOSURE CERTIFICATE



CONTINUING DISCLOSURE CERTIFICATE

**[\$principal]
City of Portland, Oregon
First Lien Water System Revenue Bond
2012 Series A**

This Continuing Disclosure Certificate (the “Certificate”) is executed and delivered by the City of Portland, Oregon (the “City”) in connection with the issuance of the City’s First Lien Water System Revenue Bonds, 2012 Series A (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 July __, 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 C: “City Operating and Financial Information” and under the heading “Water System Operating and Financial Information.”

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 governing instrument 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 report 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 ___th day of August, 2012.

City of Portland, Oregon

B. Jonas Biery, Debt Manager

APPENDIX F

BEO SYSTEM



BEO SYSTEM

DTC LANGUAGE DESCRIBING BOOK-ENTRY-ONLY ISSUANCE

(Prepared by DTC—bracketed material may be applicable only to certain issues)

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]
2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.
3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.
4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.
5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.
7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).
8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.
9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.
10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.
11. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.
12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.



