B. Debt administration

The City holds debt in the form of lines of credit, loans, and bonds. The decrease of $40,743,642 in bonds outstanding, which was partially offset by an increase of $15,605,590 to the lines of credit outstanding and $2,894,796 to the loans outstanding, account for the net decrease in debt outstanding of $22,243,256.

The increases in the lines of credit was largely attributable to issuance of additional interim financing for urban renewal district projects, the Portland Building remodel project, and for City-backed transportation and local improvement district projects. These lines of credit will ultimately be repaid with proceeds from long-term bonds or other City resources.

The decrease in bonds outstanding is a combination of a $51,830,843 net decrease in business-type activity bonds, primarily sewer and water revenue bonds, and an $11,087,201 net increase in governmental bonds. The detail of the City's bonded debt is presented in Table 5 on page 37.

Table 4
City of Portland, Oregon
Outstanding Debt
For Years as Stated

	FY 2016-17	FY 2015-16	Change
Governmental Activities			
Bonds	$ 955,362,405	$ 944,275,204	$ 11,087,201
Lines of Credit	108,313,635	92,708,045	15,605,590
Loans	14,473,577	10,212,690	4,260,887
Total governmental activities	1,078,149,617	1,047,195,939	30,953,678
Business-type Activities			
Bonds	2,398,269,417	2,450,100,260	(51,830,843)
Loans	13,554,496	14,920,587	(1,366,091)
Total business-type activities	2,411,823,913	2,465,020,847	(53,196,934)
Total Outstanding Debt			
Bonds	3,353,631,822	3,394,375,464	(40,743,642)
Lines of Credit	108,313,635	92,708,045	15,605,590
Loans	28,028,073	25,133,277	2,894,796
Total outstanding debt	$ 3,489,973,530	$ 3,512,216,786	$ (22,243,256)

As of June 30, 2017, the City had total bonded debt outstanding of $3,353,631,822. Unamortized premiums and discounts for governmental activities net to $36,618,857, while unamortized premiums and discounts for business-type activities net to $203,208,177.

Of the total bonded debt outstanding, $124,010,000 is general obligation bond debt for governmental activities, secured by the full faith and credit and unlimited taxing power of the City, an increase of $24,760,000 from FY 2015-16. This increase was due to the issuance of the General Obligation Bonds, 2017 Series A which had an original issue amount of $35,085,000, and were issued to provide financing for a portion of the cost of the Ellington Apartments project, which is owned by the City's Portland Housing Bureau.

The City has $442,472,188 of limited tax revenue bonds outstanding, an increase of $489,630 from FY 2015-16. Limited tax revenue bonds are secured by the full faith and credit of the City and have been issued for a variety of purposes, including funding pension liabilities. These bonds will be repaid from specific revenue sources and from the General Fund. The City issued $16,220,000 of 2016 Series A Limited Tax Revenue bonds for its Green Bonds - Lighting Efficiency Project. The City issued $35,780,000 of 2017 Series A Limited Tax Revenue and Refunding Bonds. $6,615,000 is non-self-supporting and the proceeds were used to refund the outstanding maturities of the City's Limited Tax Revenue Bonds, 2007 Series C Archives Space Acquisition Project. $29,165,000 is self-supporting and the proceeds were used to pay the City's share of the costs of the Sellwood Bridge Project.

An additional $392,225,600 of the City’s outstanding debt consists of urban renewal bonds that are issued to fund urban renewal activities and are repaid from tax increment revenues generated from the City’s various urban renewal areas. The decrease of $33,500,800 was due to scheduled debt service payments.

As of June 30, 2017, the City's governmental activities had $32,585,000 of outstanding limited tax improvement bonds, a decrease of $4,220,000 from FY 2015-16. The decrease was due to scheduled and early redemption of outstanding principal.

The remainder of the City’s debt is comprised of revenue bonds, totaling $2,122,512,000, which is primarily recorded in business-type activities, a decrease of $78,313,000 over FY 2015-16. In general, revenue bonds are secured solely by specified revenue sources such as water, sewer, or gas tax revenues. The decrease in revenue bonds from the prior fiscal year is due to a combination of scheduled payments and the issuance of refunding bonds. The City issued $156,650,000 of 2016 Series A First Lien Sewer Revenue Refunding bonds, and the proceeds were used to advance refund certain maturities of the City's First Lien Sewer System Revenue and Refunding Bonds, 2008 Series A. The City also issued $162,465,000 of 2016 Series B Second Lien Sewer System Revenue Refunding Bonds, the proceeds of which were used to advance refund certain maturities of the City's Second Lien Sewer System Revenue and Refunding Bonds, 2008 Series B, and to pay the premium for a municipal bond debt service reserve insurance policy. In addition, the City issued $168,525,000 of 2016 Series A First Lien Water System Revenue and Refunding Bonds, and the proceeds were used to finance a portion of the costs of the Capital Improvement Plan for the Water System of the City, and to refund the City's outstanding First Lien Water System Revenue Refunding Bonds 2006 Series B and the First Lien Water System Revenue Bonds 2008 Series A.

The following table provides comparative information on the City's outstanding bonded debt:

Table 5
City of Portland Oregon
Outstanding Bonded Debt
For Years as Stated

	FY 2016-17	FY 2015-16	Change
Governmental Activities			
General Obligation Bonds	$ 124,010,000	$ 99,250,000	$ 24,760,000
Limited Tax Improvement Bonds	32,585,000	36,805,000	(4,220,000)
Urban Renewal Bonds	392,225,600	425,726,400	(33,500,800)
Limited Tax Revenue Bonds	360,410,948	340,436,589	19,974,359
Revenue Bonds	9,512,000	11,065,000	(1,553,000)
Unamortized premiums & discounts	36,618,857	30,992,215	5,626,642
Total governmental activities	955,362,405	944,275,204	11,087,201
Business-type Activities			
Limited Tax Revenue Bonds	82,061,240	101,545,969	(19,484,729)
Revenue Bonds	2,113,000,000	2,189,760,000	(76,760,000)
Unamortized premiums & discounts	203,208,177	158,794,291	44,413,886
Total business-type activities	2,398,269,417	2,450,100,260	(51,830,843)
Total Outstanding Debt			
General Obligation Bonds	124,010,000	99,250,000	24,760,000
Limited Tax Improvements Bonds	32,585,000	36,805,000	(4,220,000)
Urban Renewal Bonds	392,225,600	425,726,400	(33,500,800)
Limited Tax Revenue Bonds	442,472,188	441,982,558	489,630
Revenue Bonds	2,122,512,000	2,200,825,000	(78,313,000)
Unamortized premiums & discounts	239,827,034	189,786,506	50,040,528
Total outstanding bonded debt	$ 3,353,631,822	$ 3,394,375,464	$ (40,743,642)

Other factors impacting the City's debt management program are as follows:

- **Debt limitation.** Oregon Revised Statutes provides a limit on non-self-supporting general obligation debt of three percent of the real market value of all taxable property within the City's boundaries. Based on the City's FY 2016-17 real market value, this debt limitation is $3,623,565,785. The amount of outstanding City debt subject to this limitation is $124,010,000. In addition, voters have authorized an additional $42,150,000 for parks improvement, and $223,315,000 for affordable housing bonds. These bonds, when issued, will be subject to the three percent limitation.

- **Debt ratings.** The City's unlimited tax general obligation debt remains rated "Aaa" by Moody's Investors Service ("Moody's") and was confirmed in May 2017. Current ratings for all of the City's various types of debt are shown below.

Credit	Moody's Rating
Unlimited Tax General Obligation Bonds	Aaa
First Lien Water Revenue Bonds	Aaa
Limited Tax Revenue Bonds	Aaa
Limited Tax Improvement Bonds	Aaa
Limited Tax Pension Obligation Revenue Bonds	Aaa
Second Lien Water Revenue Bonds	Aa1
Gas Tax Revenue Bonds	Aa2
First Lien Sewer Revenue Bonds (1)	Aa2
Second Lien Sewer Revenue Bonds (2)	Aa3
Oregon Convention Center Urban Renewal Bonds	Aa3
Downtown Waterfront Urban Renewal Bonds	Aa3
South Park Blocks Urban Renewal Bonds	Aa3
River District Urban Renewal Bonds	A1
North Macadam Urban Renewal Bonds	A1
Lents Town Center Urban Renewal Bonds	A1
Central Eastside Urban Renewal Bonds	A1
Interstate Corridor Urban Renewal Bonds	A1

Notes:
(1) These Bonds are additionally rated AA by Standard and Poor's.
(2) These bonds are additionally rated AA- by Standard and Poor's.

- **Debt ratios.** The City's debt ratios, as of June 30, 2017, are shown below:

	Amount	Per Capita	Percent of Real Market Valuation	Percent of Assessed Valuation
Population July 1, 2016 (1)	639,863	--	--	
2016-2017 Real Market Value	$ 120,785,526,154	$ 188,768	--	
2016-2017 Assessed Value (2)	$ 62,368,813,982	$ 97,472	51.64 %	
Gross Bonded Debt (3)	$ 675,715,006	$ 1,056	0.56 %	1.08 %
Net Direct Debt (4)	$ 274,020,385	$ 428	0.23 %	0.44 %
Net Overlapping Debt	$ 1,231,573,400	$ 1,925	1.02 %	1.97 %
Net Direct and Overlapping Debt	$ 1,505,593,785	$ 2,353	1.25 %	2.41 %

(1) Population figures provided by US Census Bureau.
(2) Market Value reported in this table encompasses City of Portland values within Multnomah, Washington, and Clackamas Counties, including estimated urban renewal incremental real market values. Market Values reported in this table are "Measure 5 Values", which represent the real market value of properties that are not specially assessed; and the value of specially assessed properties, including farm, forestland, and exempt property, which are less than full real market value. In FY 2016-17, the Measure 5 Market Value represented about 82.7 percent of full real market value.
(3) Includes City's outstanding general obligation bonds, limited tax revenue bonds, limited tax improvement bonds, and general fund backed lines of credit and state loans.
(4) Includes non self-supporting limited tax revenue bonds secured by the City's General Fund as well as general obligation bonds paid from a separate, unlimited *ad valorem* tax.

Additional information on the City's long-term debt can be found in Note III.I. on pages 104 - 120 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following economic factors currently affect the City of Portland and were considered in developing the City's budget for FY 2017-18.

- According to the U.S. Bureau of Labor Statistics, the unemployment rate for the City of Portland in June 2017 was 3.6%. This compares favorably with the State of Oregon rate of four percent and the national rate of 4.6%.

- Based on data released July 15, 2017, inflation rose at an annualized rate of 4.8% for the first six months of 2017, which was the fastest growth in 25 years. Higher housing, energy, and transportation costs helped to push inflation higher, while education and apparel costs fell slightly. The 2017 calendar year CPI-W, which determines the cost of living increases for nearly all City employees, is expected to be higher than in recent years, somewhere in the three to four percent range.

- Water rates and sewer bills increased 6.7% and 2.9%, respectively, for the FY 2016-17 budget year. These increases were necessary to fund ongoing operation and maintenance of aging systems, comply with U.S. Environmental Protection Agency mandates and permit requirements, and fund additional debt service payments resulting from the financing of system improvements.

- Home sales and multi-family rental activity remains the headline for the local economy at this time. Bolstered by historically low mortgage rates and large rates of in-migration, demand from consumers is far outstripping supply. The result is rapidly rising prices, often exceeding asking prices. According to the S&P-Case Schiller index, Portland has seen either the fastest or second fastest growth in home prices nationwide for the last two years. Meanwhile, rents continue to rise although finally at slower rates than recent years - according to Colliers, rents increased by 4.1% over the last fiscal year, half the rate of the prior year.

- After peaking at about 3.5% growth rate in the summer of 2015, year-over-year employment growth has slowed slightly to about 2.5% for the last couple of years. The tight labor market has limited growth as finding workers has been difficult in some industries. The proliferation of building in the area has led to a greater than 10% growth in construction employment over the last year.

- The City has seen record revenue growth over the last three years, as local economic growth has exceeded both national and state averages. Nearly all broad economic measures remain in positive territory, although most indicators appear to be moderating. While further growth will likely characterize at least the next 12 to 18 months, it will likely be at more moderate levels.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the City of Portland's Accounting Division, Bureau of Revenue and Financial Services, 1120 SW Fifth Avenue, Suite 1250, Portland, Oregon 97204.

IV. Other information continued:

C. Commitments and contingent liabilities continued:

Following are the estimated remediation liabilities that were accrued by project at fiscal year end:

Governmental activities:	
Noncurrent liabilities:	
Community development projects:	
SW Stark - Fairfield property	$ 143,164
Total governmental activities	$ 143,164
Business-type activities:	
Current liabilities:	
Environmental services projects:	
Portland Harbor Superfund RI/FS	$ 100,000
Inspection, maintenance and monitoring:	
Closed municipal incinerator	900,000
Decommissioning of groundwater wells	7,500
Clarifier construction surface soils	25,000
DEQ UIC Closure reports	25,000
Oaks Bottom landfill	25,000
Howard Property Underground storage	30,000
Kalbrenner Soil Property	435,000
Water projects:	
Washington Park	175,000
Total current liabilities	1,722,500
Noncurrent liabilities:	
Environmental services projects:	
Inspection, maintenance and monitoring:	
Closed municipal incinerator	100,000
Clarifier construction surface soils	10,000
DEQ UIC Closure reports	225,000
Oaks Bottom landfill	10,000
Howard Property Underground storage	30,000
Total noncurrent liabilities	375,000
Total business-type activities	$ 2,097,500

Continued next page

IV. Other information continued:

C. Commitments and contingent liabilities continued:

Nonexchange Financial Guarantees:

Home Forward Contingent Loan Agreements

The City is authorized by Oregon Revised Statutes and by City Ordinance to make limited, subject-to-appropriation, pledges of its General Fund to restore reserve fund balances on five Home Forward revenue bond issues (see table below). The reserve replenishment pledges remain in place until the underlying Home Forward revenue bonds are fully redeemed or defeased. To date, Home Forward has not requested payment by the City on outstanding bonds, and the City does not expect a request for payment to be forthcoming. Should funds be requested of the City, City Council must first authorize such disbursement and an accompanying repayment plan.

	Authorizing Ordinance No.	Date of Issue	Scheduled Final Maturity Date	Amount of Original Issue	Outstanding 6/30/2017	Maximum Annual Liability
Pearl Court	180528	12/19/2006	01/01/2027	$ 6,170,000	$ 3,735,000	$ 476,200
Yards at Union Station	180792	04/30/2007	05/01/2029	6,335,000	4,205,000	472,680
Hamilton West Apartments*	186515	05/01/2014	01/01/2034	3,470,000	3,275,000	204,800
Gretchen Kafoury Commons**	186514	05/01/2014	01/01/2034	4,030,000	3,805,000	237,465
Lovejoy Station	174844	10/01/2000	07/15/2033	9,690,000	9,690,000	741,600
Total Contingent Loan Agreements				$ 29,695,000	$ 24,710,000	$ 2,132,745

*Maximum annual liability does not reflect a $1,840,800 payment due at maturity on January 1, 2034.
**Maximum annual liability does not reflect a $2,142,400 payment due at maturity on January 1, 2034.

State of Oregon Department of Energy Loan Guarantee - SoloPower Systems

The City is authorized by Oregon Revised Statutes and by City Ordinance No. 184598 to pledge non-tax City revenues to guarantee payment of debt service on a loan offered by the State of Oregon Department of Energy (ODOE) to a private entity, SoloPower Systems. The loan guarantee covers $5 million of a total $10 million ODOE loan and is secured by a pledge of the City's parking meter revenues. In January 2017, the City received notice from the Oregon Department of Justice stating that SoloPower was in default on its ODOE obligations and demanding that the City begin making payments under the guarantee in the amount of $119,000 per month beginning in April 2017. The City made three monthly payments totaling $357,000 as of June 30, 2017, and is expected to continue making similar monthly payments to the State of Oregon through October 2020.

D. Other postemployment benefits:

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

Continued next page

IV. Other information continued:

D. Other postemployment benefits continued:

Health Insurance Continuation

Plan Description. The City has a Health Insurance Continuation option available for most groups of retirees. It is a substantive postemployment benefits plan offered under Oregon Revised Statutes (ORS) 243. ORS 243.303 requires the City provide retirees with an opportunity to participate in group health and dental insurance from the date of retirement to age 65, and the rate would be calculated using claims experience from retirees and active employees for health plan rating purposes. Providing the same rate to retirees as provided to current employees constitutes an implicit rate subsidy for OPEB. This single-employer "plan" is not a stand-alone plan and therefore does not issue its own financial statements.

Funding Policy. In order to fund the Health Insurance Continuation option, the City collects insurance premiums from participating retirees each month. The premiums are either deposited in the City's self insurance fund or paid directly to a third-party health insurance provider, depending upon the plan. At the date of the latest actuarial report, 776 retirees and 277 spouses were participating in the plan.

The City has elected not to pre-fund the fiscal year 2017 employer's annual required contribution (ARC) to the plan.

The Health Insurance Continuation "blended" premium rates, according to the most recent actuarial valuation, dated July 1, 2015, are:

All Employee Groups Except Portland Police Association (PPA)			
Health Plans	Medical Only	Dental	Vision
City Health Care Plan			
Participants	$ 627.49	$ 56.83	$ 5.10
Participants and Spouses	1,226.28	98.19	9.29
Kaiser			
Participants	$ 572.42	$ 66.61	$ 5.40
Participants and Spouses	1,144.80	133.22	10.80

Portland Police Association (PPA)			
Health Plans	Medical Only	Dental	Vision
City Health Care Plan			
Participants	$ 648.67	$ 56.83	$ 4.27
Participant and Spouses	1,308.55	98.19	7.77
Kaiser			
Participants	$ 576.34	$ 62.17	$ 5.85
Participant and Spouses	1,152.67	124.34	11.70

Continued next page

IV. Other information continued:

D. Other postemployment benefits continued:

Annual OPEB Cost and Net OPEB Obligation. The City's annual other postemployment benefit cost is calculated based on the (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of 30 years.

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's OPEB obligation to the plan.

	Health Insurance Continuation
Annual Required Contribution (ARC)	$ 6,875,674
Interest on net OPEB obligation	1,508,595
Adjustment to annual required contribution	(2,343,555)
Annual OPEB Cost	6,040,714
Less expected contribution	(4,949,560)
Increase in Net OPEB obligation	1,091,154
Net OPEB obligation - beginning of year	43,102,774
Net OPEB obligation - end of year	$ 44,193,928
Governmental activities	$ 40,640,789
Business-type activities	3,513,832
Fiduciary activities	39,307
Net OPEB obligation - end of year	$ 44,193,928

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2017, were as follows:

Health Insurance Continuations				
Fiscal Year Ended	Annual OPEB Cost	Contributions	Percent of Annual OPEB Cost Contributions	Net OPEB Obligation
6/30/2015	$ 8,542,920	$ 5,582,943	65.35%	$ 42,044,666
6/30/2016	5,973,051	4,914,945	82.29	43,102,774
6/30/2017	6,040,716	4,949,560	81.94	44,193,928

Continued next page

IV. Other information continued:

D. Other postemployment benefits continued:

Funded Status and Funding Progress. The funded status of the plan as of July 1, 2015 (the date of the most recent actuarial valuation):

		Health Insurance Continuation
Actuarial accrued liability (AAL)	$	79,452,502
Actuarial value of plan assets		-
Unfunded actuarial accrued liability (UAAL)	$	79,452,502

Actuarial valuation method	Entry age normal
Amortization of unfunded AAL	30 years open
Funded ratio	0%
Investment return assumption	3.5%
Inflation rate assumption	2.2%
Merit increase	0.29-5.17%
Healthcare cost trend rate	5.00-8.00%
Covered payroll (active plan members)	$432,312,186
UAAL as a percentage of covered payroll	18%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2015 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 3.5% investment rate of return and an annual healthcare cost trend rate of five to eight percent for health insurance, a range of 4.2 to 4.5% for dental insurance and three percent for vision. The UAAL is amortized over an open period of 30 years using the level percentage of projected pay.

Continued next page

IV. <u>Other information continued</u>:

D. Other postemployment benefits continued:

<u>OPERS Retirement Health Insurance Account</u>

<u>Plan Description</u>. The City contributes to the PERS Retirement Health Insurance Account (RHIA) for each of its eligible employees. RHIA is a cost-sharing multiple-employer defined benefit other postemployment benefit plan administered by PERS. RHIA pays a monthly contribution toward the cost of Medicare companion health insurance premiums of eligible retirees. ORS 238.420 established this trust fund. Authority to establish and amend the benefit provisions of RHIA reside with the Oregon Legislature. The plan is closed to new entrants after January 1, 2004. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Oregon Public Employees Retirement System, PO Box 23700, Tigard, OR 97281-3700, telephone (503) 598-7377, or by URL: <u>http://www.oregon.gov/pers/Pages/Financials/Actuarial-Financial-Information.aspx</u>

<u>Funding Policy</u>. Because RHIA was created by enabling legislation (ORS 238.420), contribution requirements of the plan members and the participating employers were established and may be amended only by the Oregon Legislature. ORS require that an amount equal to $60 or the total monthly cost of Medicare companion health insurance premiums coverage, whichever is less, shall be paid from the RHIA established by the employer, and any monthly cost in excess of $60 shall be paid by the eligible retired member in the manner provided in ORS 238.410. To be eligible to receive this monthly payment toward the premium cost, the member must: (1) have eight years or more of qualifying service in PERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in PERS, (2) receive both Medicare Parts A and B coverage, and (3) enroll in a PERS-sponsored health plan. A surviving spouse or dependent of a deceased PERS retiree who was eligible to receive the subsidy is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died and the member retired before May 1, 1991.

Participating cities are contractually required to contribute to RHIA at a rate assessed each year by PERS, currently 0.53% of annual covered payroll for Tier One and Two employees, and 0.45% for OPSRP employees. The Oregon PERS Board of Trustees sets the employer contribution rate. It is based on the annual required contribution of the combined participant employers. This is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a closed period not to exceed 30 years. The City's contributions to RHIA equaled the required contributions each year and were:

Fiscal Year Ended June 30,	RHIA Contributions
2015	$ 1,810,227
2016	1,651,293
2017	1,740,874

E. Employee retirement systems and pension plans:

<u>State of Oregon Public Employees Retirement System</u>

<u>Plan description.</u> Civilian City employees, all sworn fire and police personnel hired after December 31, 2006 are provided pensions as participants under one or more plans currently available through Oregon Public Employees Retirement System (OPERS), a cost-sharing multiple-employer defined benefit plan in accordance with Oregon Revised Statutes Chapter 238, Chapter 23A, and Internal Revenue Service Code Section 401(a).

Continued next page

IV. Other information continued:

E. Employee retirement systems and pension plans continued:

OPERS prepares their financial statements in accordance with Governmental Accounting Standards Board (GASB) Statements and generally accepted accounting principles. The accrual basis of accounting is used for all funds. Contributions are recognized when due, pursuant to legal (or statutory) requirements. Benefits and withdrawals are recognized when they are currently due and payable in accordance with the terms of the plan. Investments are recognized at fair value, the amount that could be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. OPERS issues a publicly available financial report that can be obtained at: http://www.oregon.gov/pers/Pages/Financials/Actuarial-Financial-Information.aspx

There are currently two programs within OPERS, with eligibility determined by the date of employment. Those employed prior to August 29, 2003 are OPERS Program members, and benefits are provided based on whether a member qualifies for Tier One or Tier Two described below. Those employed on or after August 29, 2003 are Oregon Public Service Retirement Plan (OPSRP) Program members. OPSRP is a hybrid retirement plan with two components: 1) the Pension Program (defined benefit; established and maintained as a tax-qualified governmental defined benefit plan), and 2) the Individual Account Program (IAP) (defined contribution; established and maintained as a tax-qualified governmental defined contribution plan).

The 1995 Legislature created a second tier of benefits for those who became OPERS Program members after 1995 but before August 29, 2003. The second tier does not have the Tier One assumed earnings rate guarantee.

Beginning January 1, 2004, all employees who were active members of OPERS became members of the OPSRP IAP Program. OPERS plan member contributions (the employee contribution, whether made by the employee or “picked-up” by the employer) go into the IAP portion of OPSRP. OPERS plan members retain their existing OPERS accounts; however, member contributions after January 1, 2004 are deposited in the member’s IAP, not into the member’s OPERS account.

On November 7, 2006, voters in the City of Portland passed a measure that took effect January 1, 2007. All police officers and firefighters hired on or after January 1, 2007 are now enrolled in OPERS instead of the City’s Fire and Police Disability and Retirement (FPDR) fund for retirement purposes. They remain under the City’s FPDR plan for disability payments.

Benefits provided under ORS 238 - Tier One / Tier Two:

Pension Benefits. The OPERS retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary. A percentage (two percent for police and fire employees, 1.67% for general service employees) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefit results.

A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she has had a contribution in each of five calendar years, or has reached at least 50 years of age before ceasing employment with a participating employer (age 45 for police and fire members). General Service employees may retire after reaching age 55, Police and fire members are eligible after reaching age 50. Tier One general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Police and fire member benefits are reduced if retirement occurs prior to age 55 with fewer than 25 years of service. Tier Two members are eligible for full benefits at age 60. The ORS Chapter 238 Defined Benefit Pension Plan is closed to new members hired on or after August 29, 2003.

Continued next page

IV. Other information continued:

E. Employee retirement systems and pension plans continued:

Death Benefits. Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance, provided one or more of the following conditions are met:

- Member was employed by a OPERS employer at the time of death,
- Member died within 120 days after termination of OPERS-covered employment,
- Member died as a result of injury sustained while employed in a OPERS-covered job, or
- Member was on an official leave of absence from an OPERS-covered job at the time of death.

Disability Benefits. A member who has accrued 10 or more years of retirement credits before the member becomes disabled or a member who becomes disabled due to job-related injury shall receive a disability benefit of 45% of the member's salary determined as of the last full month of employment before the disability occurred.

Benefit Changes after Retirement. Members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in the market value of equity investments.

Under ORS 238.360 monthly benefits are adjusted annually through cost-of-living changes (COLA). The COLA is capped at 2.0%.

Benefits provided under Chapter 238A - OPSRP Pension Program (OPSRP DB):

Pension Benefits. The ORS 238A Defined Benefit Pension Program provides benefits to members hired on or after August 29, 2003. This portion of the OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age:

Police and Fire: 1.8% is multiplied by the number of years of service and the final average salary. Normal retirement age for police and fire members is age 60 or age 53 with 25 years of retirement credit. To be classified as a police and fire member, the individual must have been employed continuously as a police and fire member for at least five years immediately preceding retirement. Reduced retirement benefits are available at age 50 to fire and police OPSRP members.

General Service: 1.5% is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65, or age 58 with 30 years of retirement credit.

A member of the OPSRP pension program becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, and, if the pension program is terminated, the date on which termination becomes effective.

Death Benefits. Upon the death of a non-retired member, the spouse or other person who is constitutionally required to be treated in the same manner as the spouse, receives for life 50% of the pension that would otherwise have been paid to the deceased member. The surviving spouse or other person may elect to delay payment of the death benefit, but payment must commence no later than December 31 of the calendar year in which the member would have reached 70½ years.

Disability Benefits. A member who has accrued 10 or more years of retirement credits before the member becomes disabled, or a member who becomes disabled due to job-related injury, shall receive a disability benefit of 45% of the member's salary determined as of the last full month of employment before the disability occurred.

 Continued next page

IV. Other information continued:

E. Employee retirement systems and pension plans continued:

Benefit Changes after Retirement. Under ORS 238.360 monthly benefits are adjusted annually through a cost-of-living adjustment (COLA). The COLA is capped at 2.0%.

Funding Policy. PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. This funding policy applies to the OPERS Defined Benefit Plan and the Other Postemployment Benefit Plans.

The City elected to finance its December 31, 1997 unfunded actuarial accrued liability to receive a lower employer contribution rate of covered employee's salaries. Proceeds of the 1999 Series, C, D, & E Bonds were used to finance all of the estimated UAAL of the City with OPERS as of December 31, 1997. The debt is recorded on the government-wide statements and is allocated to both governmental and business-type activities. Ultimately this debt is viewed as being an obligate of the general government. These limited tax pension obligation revenue bonds are discussed further in Note III.I. Long-term debt.

Contributions. PERS' funding policy provides for periodic member and employer contributions at rates established by the Public Employees Retirement Board, subject to limits set in statute. The rates established for member and employer contributions were approved based on the recommendations of the System's third-party actuary.

The City's employer contributions for the year ended June 30, 2017 were $35.6 million, excluding amounts to fund employer specific liabilities. The contribution rates in effect for the fiscal year ended June 30, 2017 for each pension program were: Tier1/Tier 2 - 12.85%, OPSRP general service - 7.00%, and OPSRP uniformed - 11.11%. Pension expense for the year was $98 million.

Pension Assets, Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

At June 30, 2017, the City reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014 and rolled forward to June 30, 2016. The City's proportion of the set was based on the City's projected long-term contribution effort as compared to the total projected net pension a long-term contribution effort of all employers. References to the City of Portland, as the Reporting entity, include the City's fiduciary fund and component unit. At June 30, 2017, the City's proportion of OPERS net pension liability was 3.78332893%.

The City’s net pension liability as the Reporting entity, was allocated based on contributions by activity:

City of Portland:	Net Pension Liability	Allocation
Governmental activities	$ 411,888,040	72.5 %
Business-type activities	142,959,076	25.2
Government-wide	554,847,116	97.7
Fiduciary activities: Fire and Police Disability and Retirement Fund	2,073,029	0.4
Discretely presented component unit: Prosper Portland	11,045,372	1.9
Reporting entity total	$ 567,965,517	100.0 %

Continued next page

IV. Other information continued:

E. Employee retirement systems and pension plans continued:

For the year ended June 30, 2017, the Reporting entity recognized pension expense of $98 million. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 18,790,781	$ -
Changes of assumptions	121,133,397	-
Net difference between projected and actual earnings on investments	112,206,156	-
Changes in proportionate share	2,156,015	-
Differences between City contributions and proportionate share of contributions	-	14,362,573
Total (prior to post-measurement date contributions)	254,286,349	14,362,573
City contributions made subsequent to measurement date	36,310,641	-
Net deferred outflows / (inflows) of resources	$ 290,596,990	$ 14,362,573

$36.3 million reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Note III. D. provides a comprehensive summary of the City's deferred outflows and inflows of resources.

Other amounts reported by the City as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in subsequent years as follows:

	Deferred Outflow of Resources					Deferred Inflow of Resources	
Fiscal Year Ending June 30,	Differences between Expected and Actual Experience	Changes of Assumptions	Difference between Projected and Actual Earnings on Investments	Changes in Proportionate Share	Total Deferred Outflow of Resources	Differences between Employer Contributions and Proportionate Share of Contributions	Total Deferred Inflow of Resources
2018	$ 4,927,145	$ 28,170,557	$ 12,277,796	$ 501,399	$ 45,876,897	$ 3,340,133	$ 3,340,133
2019	4,927,145	28,170,557	12,277,796	501,399	45,876,897	3,340,133	3,340,133
2020	4,927,145	28,170,557	53,646,995	501,399	87,246,096	3,340,133	3,340,133
2021	3,329,850	28,170,557	34,003,569	501,399	66,005,375	3,340,133	3,340,133
2022	679,496	8,451,169	-	150,419	9,281,084	1,002,041	1,002,041
Total	$ 18,790,781	$ 121,133,397	$ 112,206,156	$ 2,156,015	$ 254,286,349	$ 14,362,573	$ 14,362,573

Actuarial Methods and Assumptions:

Actuarial Valuations. The employer contribution rates effective July 1, 2015, through June 30, 2017, were set using the entry age normal actuarial cost method. Under this cost method, each active member's entry age present value of projected benefits is allocated over the member's service from their date of entry until their assumed date of exit, taking into consideration expected future compensation increases.

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IV. Other information continued:

E. Employee retirement systems and pension plans continued:

The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Valuation date	December 31, 2014
Measurement date	June 30, 2016
Experience study	2014, published September 2015
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Inflation rate	2.50 percent
Investment rate of return	7.50 percent
Discount rate	7.50 percent
Projected salary increases	3.50 percent
Cost of living adjustments (COLA)	Blend of 2.00% COLA and graded COLA (1.25%/0.15%) in accordance with Moro decision; blend based on service
Mortality	Healthy retirees and beneficiaries: RP-2000 Sex-distinct, generational per Scale BB, with collar adjustments and set-backs as described in the valuation. Active members: Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation. Disabled retirees: Mortality rates are a percentage (70% for males, 95% for females) of the RP-2000 Sex-distinct, generational per Scale BB, disabled mortality table.

The actuarial valuation calculations are based on the benefits provided under the terms of the plan in effect at the time of each valuation and on the patter of sharing of costs between the employer and plan members. Experience studies are performed as of December 31 of even numbered years. The methods and assumptions shown above are based on the 2014 Experience Study which reviewed experience for the four-year period ending on December 31, 2014.

Discount Rate. The discount rate used to measure the total pension liability was 7.50% for the Defined Benefit Pension Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members, and those of the contributing employers, are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Defined Benefit Pension Plan was applied to all periods of projected benefit payments to determine the total pension liability.

Depletion Date Projection. GASB Statement No. 67 generally requires that a blended discount rate be used to measure the Total Pension Liability (the Actuarial Accrued Liability calculated using the Individual Entry Age Normal Cost Method). The long-term expected return on plan investments may be used to discount liabilities to the extent that the plan's Fiduciary Net Position (fair market value of assets) is projected to cover benefit payments and administrative expenses. A 20-year high quality (AA/Aa or higher) municipal bond rate must be used for periods where the Fiduciary Net Position is not projected to cover benefit payments and administrative expenses.

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IV. Other information continued:

E. Employee retirement systems and pension plans continued:

Assumed Asset Allocation:

Asset Class / Strategy	Low Range	High Range	OIC Target
Cash	- %	3.0 %	- %
Debt Securities	15.0	25.0	20.0
Public Equity	32.5	42.5	37.5
Private Equity	13.5	21.5	17.5
Real Estate	9.5	15.5	12.5
Alternative Equity	-	12.5	12.5
Opportunity Portfolio	-	3.0	-
Total			100.0 %

Long-Term Expected Rate of Return. To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2015 the PERS Board reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. The table below shows Milliman's assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

	Target	Compound Annual Return (Geometric)
Core Fixed Income	8.0 %	4.0 %
Short-Term Bonds	8.0	3.6
Intermediate-Term Bonds	3.0	5.4
High Yield Bonds	1.0	6.2
Large/Mid Cap US Equities	15.8	6.7
Small Cap US Equities	1.3	7.0
Micro Cap US Equities	1.3	7.0
Developed Foreign Equities	13.1	6.7
Emerging Market Equities	4.1	7.3
Non-US Small Cap Equities	1.9	7.2
Private Equity	17.5	8.0
Real Estate (Property)	10.0	5.8
Real Estate (REITS)	2.5	6.7
Hedge Fund of Funds - Diversified	2.5	4.6
Hedge Fund - Event-driven	0.6	6.7
Timber	1.9	5.9
Farmland	1.9	6.4
Infrastructure	3.8	7.1
Commodities	1.9	4.6
Assumed Inflation – Mean		2.5

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IV. Other information continued:

E. Employee retirement systems and pension plans continued:

Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate:

The following presents the Reporting entity's proportionate, share of the net pension liability calculated using the discount rate of (7.50%), as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of the net pension liability (asset)	$ 917,074,934	$ 567,965,517	$ 276,171,126

Pension plan fiduciary net position:

Detailed information about the pension plan's fiduciary net position is available in the separately issued OPERS financial report. The effect of OPERS on the City's net position has been determined on the same basis used by OPERS.

Changes in Assumptions:

A summary of key changes implemented since the December 31, 2013 valuation are described briefly below. Additional detail and a comprehensive list of changes in methods and assumptions can be found in the 2014 Experience Study for the System, which was published on September 23, 2015, and can be found at: http://www.oregon.gov/PERS/Documents/Financials/Actuarial/2015/Experience-Study.pdf

Allocation of Liability for Service Segments:

For purposes of allocating Tier One/Tier Two member's actuarial accrued liability among multiple employers, the valuation uses a weighted average of the Money Match methodology and the Full Formula methodology used by PERS when the member retires. The weights are determined based on the prevalence of each formula among the current Tier One/Tier Two population. For the December 31, 2012 and December 31, 2013 valuations, the Money Match was weighted 30% for General Service members and five percent for Police & Fire members. For the December 31, 2014 and December 31, 2015 valuations, this weighting has been adjusted to 25% for General Service members and zero percent for Police & Fire members, based on a projection of the proportion of liability attributable to Money Match benefits at those valuation dates.

Changes in Economic Assumptions:

Inflation. The inflation rate was lowered to 2.5% based on a combination of historical and market data and expert forecasts.

Payroll growth. The payroll growth, which is the sum of inflation and real wage growth, was reduced from 3.75% to 3.5%.

Investment Return and Interest Crediting. The assumed investment return and interest crediting to both regular and variable account balances was reduced to 7.5%. Previously, the assumed investment return and interest crediting to both regular and variable account balances was 7.75%.

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IV. Other information continued:

E. Employee retirement systems and pension plans continued:

Tier One/Tier Two Administrative Expenses. Recently implemented GASB statements No. 67 and 68 necessitated an explicit Tier 1/Tier 2 administrative expense assumption. The administrative expense for December 31, 2014 and December 31, 2015 is $33 million per year.

Healthcare Cost Inflation. The healthcare cost inflation for the maximum RHIPA subsidy was updated based on analysis performed by Milliman's healthcare actuaries. This analysis includes the consideration of the excise tax that will be introduced in 2018 by the Patient Protection and Affordable Care Act.

Changes in Demographic Assumptions:

Healthy Mortality. The healthy mortality assumption is based on the RP2000 generational mortality tables with group-specific class and setback adjustments. The group-specific adjustments have been updated to more closely match recently observed system experience.

Disabled Mortality. The disabled mortality assumption base was changed from the RP2000 static tables to the RP2000 generational tables. Gender-specific adjustments were applied to align the assumption with recently observed system experience.

Disability, Retirement from Active Status, and Termination. Rates for disability, retirement from active status, and termination were adjusted.

Changes in Salary Increase Assumptions:

Merit Increases, Unused Sick Leave, and Vacation Pay. Unused sick leave and vacation pay rates were adjusted.

Retiree Healthcare Participation. The RHIA participation rate for healthy retirees was reduced from 45% to 38%. The RHIPA participation rate was changed from a uniform rate of 13% to a service-based table of rates.

Defined Contribution Plan - Individual Account Program (IAP):

Pension Benefits. Participants in OPERS defined benefit pension plans also participate in their defined contribution plan. An IAP member becomes vested on the date the employee account is established or on the date the rollover account was established. If the employer makes optional employer contributions for a member, the member becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, the date the IAP is terminated, the date the active member becomes disabled, or the date the active member dies.

Upon retirement, a member of the OPSRP Individual Account Program (IAP) may receive the amounts in his or her employee account, rollover account, and vested employer account as a lump-sum payment or in equal installments over a 5, 10, 15, 20-year period or an anticipated life span option. Each distribution option has a $200 minimum distribution limit.

Death Benefits. Upon the death of a non-retired member, the beneficiary receives in a lump sum the member's account balance, rollover account balance, and vested employer optional contribution account balance. If a retired member dies before the installment payments are completed, the beneficiary may receive the remaining installment payments or choose a lump-sum payment.

Contributions. The City has chosen to pay the employees' contributions to the plan. Six percent of covered payroll is paid for general service employees and nine percent of covered payroll is paid for firefighters and police officers. For fiscal year 2017 the City paid $23 million.

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IV. Other information continued:

E. Employee retirement systems and pension plans continued:

Recordkeeping. OPERS contracts with VOYA Financial to maintain IAP participant records.

Fire and Police Disability, Retirement and Death Benefit Plan (the Plan)

Fire and Police Disability and Retirement Fund (FPDR) accounts for the assets of the employee benefit plan held by the City of Portland in a trustee capacity. FPDR is the sole administrator for the plan. FPDR is a governmental single-employer plan maintained and operated solely by the City of Portland. The Plan's authority for vesting and benefit provisions is provided by Chapter 5 of the City Charter. Amendments require approval of the voters in the City of Portland. City Council may provide by ordinance any additional benefits that the City of Portland is required by law to extend to the members and may also change benefits by ordinance to maintain the Plan's tax-qualified status with the Internal Revenue Service. The plan is governed by the FPDR Board of Trustees.

Plan description. The Plan consists of three tiers, two of which are now closed to new employees. Fire and police personnel hired before January 1, 2013 generally became eligible for membership in the Plan immediately upon employment. Sworn personnel initially hired on or after January 1, 2013 are not eligible for membership until they have completed six months of service. See The Fire and Police Disability and Retirement Fund, (Note I.A.) for information on obtaining financial statements.

FPDR One, the original tier, and FPDR Two, the tier in which most active fire and police personnel hired before January 1, 2007 participate, are part of a single-employer defined-benefit plan administered by the FPDR Board of Trustees. FPDR One and FPDR Two are both closed to new entrants. As of June 30, 2017, there were 465 members and beneficiaries subject to the Plan as constituted prior to July 1, 1990, now called FPDR One; 2,490 members and beneficiaries were subject to the Plan as constituted after June 30, 1990, now called FPDR Two.

On November 7, 2006, voters in the City of Portland passed a measure that changed the retirement plan for new police officers and firefighters. Members hired after 2006 are FPDR Three members and enrolled in PERS, predominantly in the Oregon Public Service Retirement Plan (OPSRP), for retirement benefits.

New employees do not become members of PERS for six months unless they were previously members of PERS. The FPDR Fund pays the employee and employer portion of the OPERS contributions for FPDR Three members. FPDR Three members are covered by the FPDR Plan for disability and pre-retirement death benefits. As of June 30, 2017, the number of FPDR Three members was 535.

The Plan provides for service-connected and occupational disability benefits for FPDR Two and Three members at 75% of the member's base pay, reduced by 50% of any wages earned in other employment, for the first year. After the first year, if the member is medically stationary and capable of substantial gainful activity, benefits are reduced to 50% of the member's base pay, and then reduced by 25% of any wages earned in other employment. The minimum benefit is 25% of the member's base pay. The Plan also provides for nonservice-connected disability benefits at reduced rates of base pay after 10 years of service.

FPDR One service-connected and occupational disability benefits are paid at 60% of top-step pay for a police officer or fire fighter. Nonservice-connected disability benefits for FPDR One members are paid in the amount of the member's maximum earned pension, defined below, with a minimum payment of 20% of top step pay for a police officer or fire fighter.

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IV. Other information continued:

E. Employee retirement systems and pension plans continued:

Active members enrolled in the Plan prior to July 1, 1990 were required to make an election as to whether they wished to fall under the provisions of the Plan as constituted prior to July 1, 1990 or become subject to the new Plan provisions effective after June 30, 1990. Under the old provisions, now called FPDR One, benefits are provided upon termination of employment on or after attaining the age of 50 (with 25 or more years of service) or 55 (with 20 years or more of service). Retirement benefits are paid to members at two percent of top-step pay for a police officer or firefighter for each year of active service (up to 60%). Therefore, FPDR One members receive post-retirement benefit increases equal to increases in current top-step police officer or firefighter pay. FPDR One retirement benefits are increased, as necessary, on July 1 of each year. If increases in police officer or firefighter pay occur after July 1 in any given year, FPDR One beneficiaries receive the corresponding increase to their benefit on the following July 1.

Effective July 1, 1990, the Plan was amended to provide for the payment of FPDR Two retirement benefits upon termination of employment on or after attaining age 55, or on or after attaining age 50 if the member has 25 or more years of service. Members become 100% vested after five years of service. Benefits are paid to members at retirement using the following formula: 2.2% to 2.8% multiplied by years of service (30-year maximum); that product is multiplied by the highest one-year base pay the member received during the final three years of employment. The accrual rate of 2.2, 2.4, 2.6 or 2.8% is selected by the member at retirement; the rate determines the survivor benefit. The City Charter allows the FPDR Board to grant post-retirement benefit adjustments to FPDR Two members. The timing and amount of adjustments are at the Board's discretion, with the limitation that the percentage change in any one year may not exceed the percentage change granted to police and fire members of PERS for the same period. Historically the Board has granted a percentage increase each July 1 equal to the PERS percentage increase.

Additional pension benefits are mandated by Oregon Revised Statutes for members whose service began prior to July 14, 1995. The benefits were defined in 1995 but made retroactive to 1991, when the State of Oregon began taxing local pension benefits. The benefits are calculated as a percentage of the Plan benefits, using the greater of 9.89% times the member's percentage of creditable service prior to October 1991 or zero to four percent based on the member's years of service. Members not subject to Oregon income tax are no longer eligible for the additional benefit.

The Charter provides that, upon termination of employment before attaining five years of service, FPDR Two members shall be entitled to a lump-sum payment consisting of seven percent of base pay received by the member, excluding the first six months of membership. The Charter also provides for FPDR One members to receive a refund of contributions if they terminate employment before vesting. As of June 30, 2017, there are no unvested FPDR One or FPDR Two members.

Death benefits are paid to the surviving spouse or minor children if the member dies from a service-connected or occupational death, regardless of vesting, based on a percentage of base pay or salary as defined in the Plan. Death benefits are also paid to the surviving spouse or minor children in the case of a nonservice-connected death if the member has sufficient service time, as defined by the Plan, and for death after retirement of FPDR One and Two members. The 2015 Oregon State Legislature amended the statutes so that an alternate payee, generally a former spouse, could be treated as the surviving spouse in a domestic relations order for preretirement death benefits.

On November 6, 2007, voters in the City of Portland passed a measure that expanded the types of members who are eligible under the Plan for post-retirement medical treatment required as a result of the member's claim, approved before retirement, for a job-related injury or illness, or for an occupational disability. Previously, members who returned to active service before retirement were not eligible for these postretirement medical benefits. Now, active members who retiree on or after January 1, 2007 are eligible.

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IV. Other information continued:

E. Employee retirement systems and pension plans continued:

On November 6, 2012 voters approved eleven plan amendments referred to them by the Portland City Council. These amendments made a number of changes to plan benefits provisions, the most significant of which was a revision that defined final pay (used to calculate FPDR Two pensions) as base pay received for a 365-day period, or 366 days in leap years.

As of June 30, 2017, membership data related to the Fire and Police Disability, Retirement and Death Benefit Plan (the Plan) was as follows:

	FPDR One	FPDR Two	FPDR Three	Total
Retirees, beneficiaries and participants with disabilities currently receiving pension or long-term disability benefits	465	1,417	-	1,882
Vested benefits not yet in pay status				
Surviving spouses not yet eligible	-	2	-	2
Terminated employees	-	82	-	82
Total vested benefits not yet in pay status	-	84	-	84
Active members on short-term disability	-	10	7	17
Active members:				
Vested	-	989	-	989
Not in FPDR pension plan	-	-	535	535
Total active members	-	989	535	1,524

Summary of significant accounting policies. The Plan is reported as a Pension Trust Fund, included within the fiduciary funds, and is maintained on the accrual basis of accounting. Employer contributions to the Plan are made through a dedicated tax levy. Each year the levy is set in an amount that will be sufficient to pay the anticipated benefit payments and administrative costs of the Plan.

Cash and investments held by the City Treasurer in the City of Portland investment pool are stated at fair value. As the FPDR Plan is funded on a pay-as-you-go basis, the Pension Trust Fund has limited cash and investments assets. The Pension Trust Fund's cash and investments are maintained in a cash and investment pool with other funds of the City. Interest earned on pooled investments is allocated monthly based on average participation of the Pension Trust Fund in relation to total investments in the pool. See Note III.A., Cash and Investments for additional information on associated investment risks.

Funding policy and reserves. The Pension Trust Fund was established by adoption of Chapter 5 of the City Charter by the voters at the general election held November 2, 1948. Ten subsequent amendments have been made by voters with the last one being November 6, 2012.

The Board of Trustees of the Pension Trust Fund also administers a Reserve Fund, authorized under provisions of Chapter 5 (Section 5-104) of the City of Portland's Charter. The Reserve Fund's purpose is to provide a reserve from which advances can be made to the Fire and Police Disability and Retirement Fund in the event the latter is depleted to the extent it cannot meet its current obligations. Under provisions of the City Charter, the Reserve Fund maximum is established at $750,000 and was fully funded at June 30, 2017.

Continued next page

IV. Other information continued:

E. Employee retirement systems and pension plans continued:

A special property tax levy was approved by Portland voters as the resource for annual employer contributions. Under the Charter, employer contributions equal projected current year expenses. Therefore, the FPDR plan is not prefunded on an actuarial basis. The special property tax levy cannot exceed two and eight-tenths mills on each dollar of valuation of property ($2.80 per $1,000 of real market value) not exempt from such levy. As required by Charter, the Pension Trust Fund's Board of Trustees prepares an estimate of the amount required to pay and discharge all requirements of the Pension Trust Fund, exclusive of any loans, advances, or revenues from other sources (such as interagency revenue and interest), for the succeeding fiscal year and submits this estimate to the City Council. The Council is required by Charter annually to levy a tax sufficient to fund the estimated benefits for the upcoming year provided by the 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.

In the event that funding for the 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; only if both the levy and the FPDR Reserve Fund were exhausted.

Employees do not contribute to the FPDR Plan. Prior to July 1, 1990, members were required to contribute seven percent of a member's base salary into the Plan. Effective July 1, 1990, members were no longer required to make contributions into the Plan, except those members opting to remain in FPDR One. All FPDR One members are now receiving retirement or long-term disability benefits and are no longer contributing.

Contributions. Total actual contributions to the Plan for the fiscal year ended June 30, 2017 totaled $120.7 million.

Changes in net pension liability. The following table presents the changes in the net pension liability for the fiscal year ended June 30, 2017:

	Total Pension Liability	Plan Net Position	Net Pension Liability
Balances at 6/30/2016	$ 3,391,461,315	$ 17,425,353	$ 3,374,035,962
Service cost	82,420,266	-	82,420,266
Interest on total liability	97,302,658	-	97,302,658
Effect of plan changes	36,063,138	-	36,063,138
Effect of economic demographic (gains) or losses	95,578,193	-	95,578,193
Changes in assumptions	(215,367,868)	-	(215,367,868)
Benefit payments	(120,351,973)	(120,351,973)	-
Administrative expense	-	(4,085,644)	4,085,644
Net investment income	-	462,193	(462,193)
Employer contributions	-	120,700,158	(120,700,158)
Net changes	(24,355,586)	(3,275,266)	(21,080,320)
Balances at 6/30/2017	$ 3,367,105,729	$ 14,150,087	$ 3,352,955,642

Continued next page

IV. Other information continued:

E. Employee retirement systems and pension plans continued:

The City's pension expense for the fiscal year ended June 30, 2017 was $304,582,662.

The change in assumptions corresponds with an increase to the discount rate - the June 30 value of the Bond Buyer General Obligation 20-Bond Municipal Bond Index - from 2.85% on June 30, 2016 to 3.58% on June 30, 2017.

Sensitivity of the net pension liability to changes in the discount rate

The following table presents the sensitivity of the net pension liability calculation to a one percent increase or decrease in the discount rate used to measure the total pension liability:

	1% Decrease 2.58%	Discount rate 3.58%	1% Increase 4.58%
Net pension liability	$ 3,915,163,607	$ 3,352,955,642	$ 2,905,850,515

Deferred Inflows and Outflows of Resources

The following table presents the components of deferred inflows and outflows of resources for the Plan for the fiscal years ended June 30, 2017. Note III. D. provides a comprehensive summary of the City's deferred outflows and inflows of resources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 77,197,771	$ 12,110,028
Changes in assumptions or inputs	379,007,486	173,950,970
Net difference between projected and actual earnings	711,807	-
Total	$ 456,917,064	$ 186,060,998

The following table presents the future amortization of deferred inflows and outflows of resources for the Plan:

Fiscal Years Ended June 30,	Deferred Outflows	Deferred Inflows
2018	$ 143,650,587	$ 58,495,892
2019	143,650,584	58,495,891
2020	126,882,428	51,667,739
2021	50,505,681	20,566,396
2022	(7,772,216)	(3,164,920)
Total	$ 456,917,064	$ 186,060,998

The information presented above is based on the most recent actuarial valuation, or a roll forward of the most recent actuarial valuation. Key assumptions used in the actuarial calculations are listed below.

Continued next page

IV. Other information continued:

E. Employee retirement systems and pension plans continued:

Actuarial Valuation Assumptions:

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

Actuarial Valuation Assumptions	
Valuation date	June 30, 2016
Actuarial cost method	Entry Age Normal
Asset valuation method	Fair market value basis
Dates of experience studies on which significant assumptions are based	June 30, 2014
Mortality assumptions	Retirees and beneficiaries: RP-2000 sex-distinct, generational, with projection scales, with collar adjustments, and set-backs as described in the relevant valuations.
Actuarial assumptions:	Active members: Mortality rates are a percentage of healthy retiree rates, as described in the relevant valuations.
Discount rate	3.58%
Change in discount rate since last measurement date	0.73%
Projected salary increases - Police	3.75%
Projected salary increases - Fire	3.75%
Includes inflation at cost of living adjustments	2.75%
Source of municipal bond rate used	Bond Buyer General Obligation 20-Bond Municipal Bond Index*
Post-retirement benefit increases:	
FPDR One	3.75%
FPDR Two	Blend 2.0% / 1.25%

* The Plan is not funded, so management chose to use this index to set the discount rate used by the actuary.

The projected salary increases above are for members with more than seven years of service. Those with less than seven years have projected salary increases ranging up to 20%, as detailed in the actuarial valuation report. It is projected that 25% of Fire members and 50% of Police members retire at age 50, and that all Police members retire by age 60 and all Fire members by age 65.

It should be noted that the net pension liability, plan net position as a percentage of total pension liability and the ratio of the net pension liability to covered payroll are measures typically used to gauge the financial health of prefunded plans. Since the FPDR plan is a pay-as-you-go plan funded with a dedicated property tax, the critical measure of the plan's financial health is whether this property tax will ever be insufficient to fully cover plan expenditures.

 Continued next page

IV. Other information continued:

E. Employee retirement systems and pension plans continued:

The FPDR Board periodically assesses the future availability of property tax revenues by ordering projections and simulations in connection with the actuarial valuation of the funds. The most recent assessment was as of June 30, 2016. The analysis found that, under a wide range of simulated economic scenarios in the foreseeable future, the future FPDR Fund levy has an approximately 2.6% probability of reaching the maximum $2.8 per $1,000 of real market value in at least one year through 2036.

F. Tax Abatements

As of June 30, 2017, the City of Portland provides tax abatements through five programs: Non-Profit Low Income Rental Housing, Enterprise Zone, Homebuyer Opportunity Limited Tax Exemption, Multiple-Unit Housing in Core Areas, and Residential Rehab Property.

Non-Profit Low Income Rental Housing (ORS 307.540 to 307.548):

The largest abatement program for the City is the Non-Profit Low Income Rental Housing. In 1985, Oregon legislature authorized a property tax exemption for low-income housing held by charitable, nonprofit organizations. The tax exemption is intended to benefit low-income renters by alleviating the property tax burden on those agencies that provide this type of housing. The qualifying property must be located within the City of Portland.

Charitable, nonprofit organizations that provide housing to low-income persons are eligible, and must be certified by the Internal Revenue Service as 501(c)(3) or (4) organization. Organizations must own or have a leasehold interest in the property or participate in a partnership as long as the non-profit organization is responsible for the day-to-day management of the property. Applicants who are leaseholders must have a signed leasehold agreement by the application deadline. Vacant land intended to be developed as low-income housing is also eligible for the exemption.

The property tax exemption applies only to the tax levy of a governing body that adopts the provisions of ORS 307.540 to 307.548.

Enterprise Zone (ORS 285C.175):

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

The Enterprise Zone program provides qualified firms that will be making a substantial new capital investment within the defined enterprise zone, a waiver of 100% of the amount of real property taxes attributable to the new investment for a period of five years following completion of the new investment. Land or existing machinery or equipment is not tax exempt; therefore, there is no loss of current property tax levies to local taxing jurisdiction.

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IV. Other information continued:

F. Tax Abatements continued

Homebuyer Opportunity Limited Tax Exemption (ORS 307.651 to 307.687):

The Homebuyer Opportunity Limited Tax Exemption (HOLTE) program exempts the residential improvement value from real property taxation for a 10-year period, while the land remains taxable. At the end of the 10-year exemption period, the taxes due will reflect the full assessed value of the property. Homes approved for the HOLTE program must sell for less than the annually established price cap to homebuyers who will live in the homes and meet program income requirements. There is a 100-unit cap on the number of new applications approved each year, although the cap does not apply to applications for properties including long-term affordability covenants.

Multiple-Unit Housing in Core Areas (ORS 307.600 to 307.637):

This law addresses the publics' interest in stimulating the construction of transit supportive multiple-unit housing in the core areas of Oregon's urban centers in order to improve the balance between the residential and commercial nature of those areas, and to ensure full-time use of the areas as places where citizens of the community have an opportunity to live as well as work.

In any city, or in any county with a population of over 300,000, the exemption shall apply only to multiple-unit housing preserved, established, constructed, added to or converted on land within an area designated under ORS 307.606. This program exempts property taxes for a period of 10 years, and does not include land values in the exemption.

Residential Rehab Property (ORS 308.450 to 308.481):

The Residential Rehab Property program was designed to rehab properties within distressed areas. The Legislative Assembly determined that it was in the public interest to encourage the rehabilitation of existing units in substandard condition and the conversion of transient accommodation to permanent residential units, and the conversion of nonresidential structures to permanent residential units, to make these units into sound additions to the housing stock of the state. The Legislative Assembly also found that cities and counties of the state should be enabled to establish and design programs to stimulate such rehabilitation and or conversion, based on the incentive of a local property tax exemption. The assessed value of rehabilitated residential property cannot be more than its assessed value as it appears in the last certified assessment roll next preceding the date on which the application for limited assessment is filed with the governing body as provided in ORS 308.462. This program has been repealed by City Code, and new applications are no longer accepted.

For the fiscal year ended June 30, 2017, the City of Portland abated property taxes totaling $7,087,489 under these programs.

Tax Abatement Program	Amount of Taxes Abated during the Fiscal Year
Non-Profit Low Income Rental Housing	$ 3,477,686
Enterprise Zone	2,277,600
Homebuyer Opportunity Limited Tax Exemption (HOLTE)	856,934
Multiple-Unit Housing in Core Areas	474,022
Residential Rehab Property	1,247
	$ 7,087,489

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IV. Other information continued:

G. Subsequent events:

Changes in OPERS Pension Plan Provisions Subsequent to Measurement Date:

At its July 28, 2017 meeting, the PERS Board lowered its effective "assumed rate" from 7.5% to 7.2% effective, January 1, 2018. The assumed rate is the rate of investment return (including inflation) that the PERS Fund's regular account is expected to earn over the long term. Oregon Administrative Rule 459-007-0001(2) states that the assumed rate "means the actuarial assumed rate of return on investments as adopted by the Board for the most recent actuarial valuation."

The lowered rate is expected to increase the PERS net pension liability by an estimated $2.0 to $2.4 billion. Of this increase, the City's portion is estimated at $75.7 to $90.8 million.

Debt activity

Subsequent to fiscal year-end, the City increased the following debt instrument:

Notes and Loans:	Issue Date	Principal	Length in Years	Interest Rates
Tax Anticipation Notes, Series 2015 FPDR	7/20/2017	$ 35,705,000	0.94	2.5%
Levee Loan #17 Special Finance and Resource	7/27/2017	6,414	7 Years Commencing 12/1/2018	3.26
Levee Loan #18 Special Finance and Resource	8/18/2017	14,910	7 Years Commencing 12/1/2018	3.26

Line of Credit Activity	Origination Date	Maximum Credit	Draw (Repayment) Date	Principal Draw (Repayment)	Length in Years	Interest Rate
Portland Building LOC Draw #5	4/4/2017	$ 190,000,000	9/22/2017	$ 4,218,499	5	Variable

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