

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

1. Name of Initiator Eric Johansen, Debt Manager	2. Telephone Number 503/823-6851	3. Bureau/Office/Dept. Financial Services/Public Finance and Treasury
4a. To be filed (date)  February 25, 2010	4b. Calendar (Check One) Regular    Consent    4/5ths [X]        [ ]        [ ]	5. Date Submitted to FPD Budget Analyst:  February 17, 2010

**1) Legislation Title:**

\* Authorize interim financing for sewer system and related matters (Ordinance)

**2) Purpose of the Proposed Legislation:**

The Ordinance authorizes the Debt Manager to:

- Amend the Master Second Lien Sewer System Revenue Bond Declaration (the “Second Lien Bond Declaration);
- Agree to issue no more bonds secured by a first lien on the Sewer System revenues;
- Issue bonds authorized by Ordinance 183469 as short or intermediate term bonds that are secured by a lien on Sewer System revenues that is subordinate to the lien securing the Second Lien Bonds (“Third Lien Bonds”); and
- Refund those bonds with longer term bonds issued as either Second Lien Bonds or Third Lien Bonds once amendments to the Second Lien Bond Declaration are complete.

**3) Revenue:**

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

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

**4) Expense:**

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

The financial impact statement for Ordinance 183469 included an estimate of annual debt service costs for \$450 million of Sewer System Revenue Bonds of \$31.6 million. The debt service on financing authorized through this Ordinance is expected to fall within this amount.

**Staffing Requirements:**

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

No position changes are anticipated.

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

No position changes are anticipated.

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

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

Fund	Fund Center	Commitment Item	Functional Area	Funded Program	Grant	Amount

Eric, Johansen, Debt Manager

APPROPRIATION UNIT HEAD (Typed name and signature)



**CITY OF PORTLAND**  
OFFICE OF MANAGEMENT AND FINANCE  
Sam Adams, Mayor  
Ken Rust, Chief Administrative Officer

Bureau of Financial Services  
Vacant, Director & CFO  
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183576

DATE: February 17, 2010

TO: Mayor Sam Adams

FROM: Eric Johansen, Debt Manager

RE: \* Authorize interim financing for sewer system and related matters (Ordinance)

**FOR MAYOR'S OFFICE USE ONLY**

Reviewed by Bureau Liaison \_\_\_\_\_

1. INTENDED THURSDAY FILING DATE: February 25, 2010  
2. REQUESTED COUNCIL AGENDA DATE: March 3, 2010  
3. CONTACT NAME & NUMBER: Eric Johansen, Debt Manager, x3-6851  
4. PLACE ON:    CONSENT   X   REGULAR  
5. BUDGET IMPACT STATEMENT ATTACHED:   X   Y    N    N/A  
6. (3) ORIGINAL COPIES OF CONTRACTS APPROVED AS TO FORM BY CITY ATTORNEY  
ATTACHED:    Yes    No   ✓   N/A

7. **BACKGROUND/ANALYSIS**

**Introduction and History** – Attached is an Ordinance for Council consideration on March 3, 2010. The Ordinance authorizes the Debt Manager to:

- Amend the Master Second Lien Sewer System Revenue Bond Declaration (the “Second Lien Bond Declaration”) to accommodate the issuance of Build America Bonds and to make other changes that benefit the City;
- Covenant not to issue additional bonds secured by a first lien on the Sewer System revenues;
- Issue bonds authorized by Ordinance 183469 as short or intermediate term bonds that are secured by a lien on Sewer System revenues that is subordinate to the lien securing the Second Lien Bonds (“Third Lien Bonds”); and
- Refund those bonds with longer term bonds issued as either Second Lien Bonds or Third Lien Bonds once amendments to the Second Lien Bond Declaration are complete.

In January 2010, the City Council adopted Ordinance 183469, which authorized the issuance of First or Second Lien Bonds to finance Sewer System capital improvements. The City may be able to reduce its debt service costs by issuing the bonds authorized this ordinance as “Build America Bonds.” Build America Bonds are taxable bonds that are eligible for a 35% federal interest subsidy. However, legal documents governing the First and Second Lien Bonds do not allow the federal subsidy to be taken into account when calculating debt service coverage ratios and for other purposes. The City is working with bond counsel to amend the Second Lien Bond Declaration to provide terms more favorable to the City. The First Lien Bond documents cannot easily be amended.

The City may also find it advantageous to close off issuance of the First Lien Bonds, so that no additional new money First Lien Bonds would be issued in the future. This may result in better market acceptance of and reduce interest costs on Second Lien Bonds.

In order to allow time to undertake the necessary amendments to the Second Lien Bond Declaration and ensure that the capital program of the Bureau of Environmental Services ("BES") can proceed as planned, the City is proposing to issue short or intermediate term bonds that would be placed with a commercial bank, and refund these bonds later with the proceeds of Second Lien Bonds once amendments to the Second Lien Bond Declaration are finalized. The Ordinance authorizes the Debt Manager to sell any or all of the bonds authorized under Ordinance 183469 as short or intermediate term bonds, which may be Third Lien Bonds.

If the Ordinance is approved by the City Council, the City will solicit bids from commercial banks to provide a line of credit or other interim financing in an approximate amount of \$150-175 million, which will provide the funds necessary to carry out the BES capital improvement program through late spring, when long-term bonds are expected to be issued.

The Ordinance delegates to the Debt Manager certain tasks including amending the Second Lien Bond Declaration; covenanting not to issue additional First Lien Bonds; issuing interim financing and placing that financing with one or more commercial banks; establishing terms governing Third Lien Bonds; and issuing refunding bonds.

**Legal Issues** – None.

**Link to Current City Policies** – None.

**Controversial Issues** – None

**Citizen Participation** – Not Applicable

**Other Government Participation** – The City is working with the staff of BES to complete the necessary amendments to bond documents and complete the interim financing.

## **8. FINANCIAL IMPACT**

The financial impact statement for Ordinance 183469 included an estimate of annual debt service costs for \$450 million of Sewer System Revenue Bonds of \$31.6 million. The debt service on financing authorized through this Ordinance is expected to fall within this amount.

## **9. RECOMMENDATION/ACTION REQUESTED**

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