

Exhibit B

Policy Regarding Issuance of Letter of Credit/Limited General Obligation Bond to Fund Catastrophic Loss Exposures

Purpose

Since 1985, the City of Portland has found it difficult, if not impossible, to obtain insurance for catastrophic losses arising from accidental personal injury or property damage. This lack of coverage opens the City to severe financial difficulties if a catastrophic loss should occur.

The City has studied a number of alternatives to insurance as means of protecting itself against this type of loss. One such alternative is the pre-loss issuance of a Letter of Credit, with a post-loss draw on the Letter of Credit and a post-loss issuance of a limited tax general obligation bond. State Law allows the City to obtain Letters of Credit and issue limited tax general obligation bonds for previously incurred losses, provided the City adopts a policy setting forth the conditions for the use of such options (ORS 287.049). The purpose of this policy, therefore, is to establish such conditions.

For the purpose of this policy, 'catastrophic loss' is defined as an unforeseen act or event which causes personal injury and/or property damage valued at \$1,000,000 or more.

Conditions For Use of Letters of Credit/Limited G.O. Bonds

- I. On an annual basis:
 - A. The Bureau of Risk Management shall:
 - (1) assess the City's exposure to catastrophic losses and its ability to fund large losses; and
 - (2) analyze the availability, pricing and coverage of commercial insurance, and assess the costs and benefits against other loss funding alternatives, such as post-loss funding through Letter of Credit and issuance of limited general obligation bonds. This assessment shall include an assessment of the appropriate levels of coverage, mix of coverage instruments, and a comparative analysis of risk retention and risk transfer.
 - B. The Office of Fiscal Administration shall:
 - (1) review the cost/benefit analysis in A(2), particularly as it relates to other loss funding alternatives; and

- (2) assess each funding alternative identified under A(2) as
 - (3) it impacts the City's credit rating, standing in financial markets, compatibility with existing City-wide financial plans, and the City's credit capacity that is appropriate to allocate to catastrophic loss coverage.
- II. If, based upon the analyses in I above, the Bureau of Risk Management and the Office of Fiscal Administration conclude that the utilization of Letter(s) of Credit and the issuance of limited general obligation bonds are in the best interest of the City, the Commissioners in Charge of the Bureau of Risk Management and the Office of Fiscal Administration shall submit the findings in the form of a full report to Council, and a summary of findings and recommendations in the form of a Resolution to the City Council for its consideration.
- III. Since Letters of Credit are normally issued for periods of three to five years, and because any shorter' term may make a Letter of Credit uneconomical because of issuance costs, the Resolution referred to in paragraph II above may authorize the obtaining of a Letter of Credit for a multi-year term, not to exceed five years. If the City obtains such a Letter of Credit for a multi-year term, the Bureau of Risk Management and the Office of Fiscal Administration shall submit an annual update to the initial report described in paragraph II above to meet the requirements of ORS 287.049.

Letter of Credit Implementation

If the Letter of credit option is accepted by Council as the most appropriate course of action for the City, the Office of Fiscal Administration shall issue a request for proposals from financial institutions to provide a Letter of Credit.

The Commissioner in Charge of the Office of Fiscal Administration shall submit an ordinance authorizing a contract with the financial institution offering the most beneficial terms to the City. The Ordinance shall include the terms of the Letter of Credit, including the timing and procedures for the repayment of the Letter of Credit. The Ordinance shall include the terms of the Letter of Credit with limited general obligation bonds or other means. The terms of the Letter of Credit shall be so stated as to permit the City to repay the Letter of Credit at any early date.

The City recognizes that any draw on the Letter of Credit will fall under the provisions of the Internal Revenue Code of 1986, particularly those relating to Rebate and Yield Restriction. Therefore, at no time will the City draw any funds from the Letter of Credit more than six months in advance of the intended date of use.

Should a catastrophic loss occur, the Office of Fiscal Administration shall weigh the City's ability to fund the loss against the costs and benefits of drawing from the Letter of Credit to cover part or all of the loss. If it determines that it is in the public interest to draw from the Letter of Credit, the Commissioner in Charge of the Office of Fiscal Administration shall submit an enabling Ordinance for consideration by the Council.

Following a draw upon the Letter of Credit, the Office of Fiscal Administration shall monitor interest rates and other appropriate financial indices, and shall explore all options for repayment of the Letter of Credit. If the issuance of limited general obligation bonds is identified as the most appropriate option, the Commissioner in Charge of the Office of Fiscal Administration shall submit an Ordinance for consideration by the Council enabling the issuance of limited tax general obligation bonds.