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Ordinance

Authorize revenue bonds to finance sewer system capital improvements for an estimated principal amount not to exceed \$334 million and to refund outstanding bonds

Passed

The City of Portland ordains:

Section 1. The Council finds:

1. The City is authorized to issue revenue bonds for a public purpose under ORS 287A.150 and related statutes (the Act). Revenue bonds issued under the Act may be payable from all or any portion of the sewer system revenues of the City. The City is also authorized to issue revenue bonds to refund revenue bonds pursuant to ORS 287A.360 to 287A.375.
2. The City may authorize revenue bonds under the Act by nonemergency ordinance. The City may not sell the revenue bonds under the Act until the period for referral of the nonemergency ordinance authorizing the revenue bonds has expired. If a nonemergency ordinance authorizing the revenue bonds is referred, the City may not sell the revenue bonds unless the voters approve the revenue bonds.
3. The City now finds it financially feasible and in the best interests of the City to authorize the issuance of revenue bonds under the Act in order to finance capital assets of the sewer system, including construction, replacement, rehabilitation or other improvements to real and personal property owned, operated, used, or maintained by the City for sewage disposal or sewage purification within or without the corporate limits of the City, including but not limited to, all methods of storm drainage, intercepting sewers, diversion sewers, relieving or interconnection sewers, sewers to separate storm and sanitary sewage, pump or ejector stations and equipment, and plants for treatment, processing and disposal of sewage (collectively, System Improvements).
4. It may be desirable to obtain interim financing for the System Improvements, and to secure that interim financing with a lien on the net revenues of the City's sewer system that is subordinate to outstanding City sewer revenue bonds.
5. The City has issued sewer revenue bonds that are secured by a first lien on the net revenues of the City's sewer system (First Lien Bonds) pursuant to the Master First Lien Sewer System Revenue Bond Declaration dated as of June 29, 2016, as amended and supplemented

Introduced by

[Mayor Ted Wheeler](#)

City department

[Debt Management and Investor Relations](#); [Environmental Services](#)

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Requested Agenda Type

Regular

Date and Time Information**Requested Council Date**

October 9, 2024

pursuant to its terms (Master First Lien Sewer Revenue Bond Declaration). The City has also issued sewer revenue bonds that are secured by a second lien on the net revenues of the City's sewer system (Second Lien Bonds) as provided in the Second Amended and Restated Master Second Lien Sewer System Revenue Bond Declaration dated as of June 29, 2016, as amended and supplemented pursuant to its terms (Master Second Lien Sewer Revenue Bond Declaration).

6. The City enacts this ordinance to authorize the issuance and sale of sewer revenue bonds in an amount sufficient to produce net proceeds of up to \$330 million for costs of System Improvements, to refund sewer revenue bonds that are issued to provide interim financing, and to refund sewer revenue bonds that produce debt service savings or achieve a favorable reorganization of outstanding bonds, if conditions warrant.

NOW, THEREFORE, the Council directs:

A. Issuance of Bonds for System Improvements.

1. The City hereby authorizes the issuance of revenue bonds pursuant to ORS 287A.150 in an amount that is sufficient to provide net proceeds of up to \$330 million to pay for costs of System Improvements, plus additional amounts that are required to fund bond reserves for bonds authorized by this Section 1.A.1 and Section 1.B of this ordinance and to pay costs related to the financings. The City estimates that the total principal amount of revenue bonds required for this purpose will not exceed \$334 million. The bonds shall be issued and sold in accordance with the Act.
2. The bonds authorized by this ordinance shall be special obligations of the City that are payable solely from sewer system revenues.
3. No bonds authorized by Section 1.A.1 of this ordinance may be sold and no purchase agreement for any of those bonds may be executed until the period for referral of this nonemergency ordinance has expired. If this ordinance is referred, the City may not sell the bonds authorized by Section 1.A.1 of this ordinance unless the voters approve those bonds.

B. Issuance of Refunding Bonds. The City hereby authorizes the issuance of refunding bonds pursuant to applicable Oregon statutes to refinance (1) any revenue bonds that are issued pursuant to Section 1.A.1 of this ordinance to provide interim financing, and (2) any of the City's outstanding sewer revenue bonds (including by purchase or exchange) to obtain debt service savings or to achieve a favorable reorganization of outstanding bonds, if conditions warrant. The refunding bonds authorized by this Section 1.B may be issued in an aggregate principal amount sufficient to refund any sewer revenue bonds selected by the Authorized Officer pursuant to Section 1.C.7 of this ordinance, plus amounts required to pay costs related to the refunding bonds.

C. Delegation. After this ordinance takes effect the City Administrator, Deputy City Administrator of Budget and Finance, City Treasurer, Debt Manager, or the person designated by the City Administrator to act as an Authorized Officer under this ordinance (any of whom is referred to in this ordinance as an Authorized Officer) may, on behalf of the City and without further action by the Council:

1. Issue the revenue bonds authorized by this ordinance (the 2024 Bonds) in one or more series, which may be sold at different times, and issue any series of 2024 Bonds as First Lien Bonds or as Second Lien Bonds.
2. Issue the 2024 Bonds as short or intermediate term bonds to provide interim financing for System Improvements and enter into lines of credit or similar documents which permit the City to draw 2024 Bond proceeds over time.
3. Participate in the preparation of, authorize the distribution of, and, jointly with the Deputy City Administrator of Public Works (or person designated by the Deputy City Administrator of Public Works or City Administrator) deem final the preliminary and final official statements and any other disclosure documents for each series of the 2024 Bonds.
4. Subject to the limits of this ordinance, establish the final principal amounts, lien status, maturity schedules, interest rates, sale prices, redemption terms, payment terms and dates, record dates and other terms for each series of 2024 Bonds and either publish a notice of sale, receive bids and award the sale of that series to the bidder complying with the notice and offering the most favorable terms to the City, or select one or more underwriters or lenders and negotiate the sale of that series with those underwriters or lenders and execute and deliver bond purchase agreements, including forward delivery bond purchase agreements, with those underwriters or lenders in connection with such sales.
5. Prepare, execute and deliver one or more bond declarations or other documents or agreements that will specify the terms under which the 2024 Bonds are issued and the administrative provisions that apply to the 2024 Bonds. The related bond declarations or other documents or agreements may also contain covenants for the benefit of the owners of the 2024 Bonds and any credit enhancement providers.
6. Amend or reserve the ability to make changes to the Master First Lien Sewer Revenue Bond Declaration and amend or reserve the ability to amend the Master Second Lien Sewer Revenue Bond Declaration to facilitate the issuance of the 2024 Bonds and future sewer revenue bonds.
7. Select sewer revenue bonds to be refunded, refund any 2024 Bonds that are issued to provide interim financing with other short, intermediate or long-term term bonds, and call, refund (including

by purchase or exchange) and defease any sewer revenue bonds that produce net debt service savings or a favorable reorganization of bonds that is in the City's best financial interest, and, if applicable, submit one or more advance refunding plans to the State of Oregon Municipal Debt Advisory Commission.

8. Prepare, execute, and distribute, as applicable, documents associated with refunding of outstanding sewer revenue bonds (including by purchase or exchange), including an invitation to tender bonds and related documents.
9. Undertake to provide continuing disclosure for any series of 2024 Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission.
10. Apply for and purchase municipal bond insurance, reserve sureties or other forms of credit enhancements for any series of 2024 Bonds, and enter into related agreements.
11. Appoint and enter into agreements with escrow agents, paying agents, verification agents and other professionals and service providers for the 2024 Bonds.
12. Issue any qualifying series of 2024 Bonds as "tax-exempt bonds" bearing interest that is excludable from gross income under the Internal Revenue Code of 1986, as amended, (the Code) and enter into covenants for the benefit of the owners of those series to maintain the excludability of interest on those series from gross income under the Code.
13. If the federal government approves subsidy payments or tax credits for municipal bonds and those subsidies or tax credits are estimated to reduce the net debt service payments for the 2024 Bonds, issue any series of 2024 Bonds as eligible for those federal subsidies or tax credits, and enter into related covenants to maintain the eligibility of such series of 2024 Bonds for those subsidies or tax credits.
14. Issue any series of 2024 Bonds as "taxable bonds" bearing interest that is includable in gross income under the Code.
15. Execute any documents and take any other action in connection with the 2024 Bonds and any refunding of outstanding bonds which the Authorized Officer finds will be advantageous to the City.

D. Compliance with the Master First Lien Sewer Revenue Bond Declaration.

1. The covenants in this section are made to comply with the requirements of the Master First Lien Sewer Revenue Bond Declaration. Capitalized terms used in this section shall have the meanings defined for those terms in the Master First Lien Sewer Revenue Bond Declaration.

2. The bonds authorized by this ordinance that are issued as Parity Obligations pursuant to the Master First Lien Sewer Revenue Bond Declaration (the 2024 First Lien Bonds) shall not be issued until the City complies with all applicable requirements of the Master First Lien Sewer Revenue Bond Declaration.
3. The balance in the Reserve Account at closing of any 2024 First Lien Bonds shall be made equal to the Required Reserve for all outstanding Bonds, including any proposed 2024 First Lien Bonds, as required by the Master First Lien Sewer Revenue Bond Declaration.
4. The City covenants to operate the Sewer System so that:
 - a. Net Revenues (without adjustment for payments to or withdrawals from the Rate Stabilization Fund) in each fiscal year are projected to be at least equal to the sum of all payments due under any Reserve Equivalent, plus all debt service due on outstanding First Lien Bonds (including the 2024 First Lien Bonds) in that fiscal year; and
 - b. Net Revenues (after adjustments for payments to and withdrawals from the Rate Stabilization Fund) in each fiscal year are projected to be at least equal to the sum of all payments due under any Reserve Equivalent, plus 1.20 times the debt service due on all outstanding First Lien Bonds (including the 2024 First Lien Bonds) in that fiscal year.

An ordinance when passed by the Council shall be signed by the Auditor. It shall be carefully filed and preserved in the custody of the Auditor (City Charter Chapter 2 Article 1 Section 2-122)

Passed by Council
October 9, 2024

Auditor of the City of Portland
Simone Rede

Impact Statement

Purpose of Proposed Legislation and Background Information

The proposed legislation authorizes the issuance of bonds secured by the net revenues of the City's sewer system (the Bonds) to provide proceeds of up to \$330 million to finance capital assets of the sewer system, plus amounts that are reasonably required to fund financing costs and reserve funds. The total amount shall not exceed \$334 million. The ordinance also authorizes the Bonds to be initially issued as interim financing, and the subsequent refinancing of the interim financing with long-term bonds, if advantageous to the City.

Additionally, the Ordinance authorizes the City to refund (i.e. refinance) any outstanding sewer system revenue bonds that produce debt service savings in accordance with the City's debt management policy or to achieve a favorable reorganization of outstanding bonds, if warranted. Subject to interest rates at the time of the bond sale, the City expects to refund the Second Lien Sewer System Revenue and Refunding Bonds, 2014 Series B.

The Bonds are expected to be sold in December using a negotiated sale process, which differs from the City's typical competitive sale process. A negotiated sale will allow the City to more effectively manage investor communications and potentially refund other existing sewer system bonds via secondary market repurchase.

Financial and Budgetary Impacts

Based on current market conditions, the estimated annual debt service on the Bonds is approximately \$19.7 million per year assuming a 30-year repayment period; however, this annual amount is subject to change if alternative payment structuring is used to meet the Sewer System's longer-term financial objectives. Debt service will begin in Fiscal Year 2024-25 and has been included in the Fiscal Year 2024-25 Adopted Budget.

Projected sewer system revenues, including planned sewer rate increases, are projected to be sufficient to meet or exceed debt service coverage planning standards of 1.30x of sewer system net revenues after the issuance of the Bonds.

After the issuance of the Bonds, total City debt secured by the net revenues of the sewer system will be roughly \$1.67 billion, which is roughly 4.1x of Fiscal Year 2023-24 annual sewer system charges for service and within the 2.0x – 7.0x range of AA+ and AA rated municipal water/sewer utility systems by Moody's Ratings. The Sewer System credit rating is Aa1/AA+ for First Lien Sewer System Revenue Bonds and Aa2/AA for Second Lien Sewer System Revenue Bonds.

Community Impacts and Community Involvement

Impacts include maintaining sewer rates within the projected sewer fee rate schedule periodically provided to City Council to ensure financial sustainability of the sewer system. The issuance of the Bonds will allow to City to continue maintaining its sewer system in good working order and meeting all regulatory requirements to effectively provide essential wastewater and stormwater services to Portland citizens and businesses.

100% Renewable Goal

n/a

Financial and Budget Analysis

This action authorizes issuance of revenue bonds for an estimated principal amount not to exceed \$334 million for sewer system capital improvements. Debt management estimates annual debt service on the Bonds to be approximately \$19.7 million annually, with an assumed 30-year repayment period. Debt service is to be paid via sewer system revenues, including planned sewer rate increases.

Document History

Item 835 Regular Agenda in [October 2, 2024 Council Agenda](https://www.portland.gov/council/agenda/2024/10/2)
(<https://www.portland.gov/council/agenda/2024/10/2>)

City Council

Passed to second reading

Passed to second reading October 9, 2024 at 9:30 a.m.

Item 854 Regular Agenda in [October 9-10, 2024 Council Agenda](https://www.portland.gov/council/agenda/2024/10/9)
(<https://www.portland.gov/council/agenda/2024/10/9>)

City Council

Passed

Aye (4): Mingus Mapps, Dan Ryan, Rene Gonzalez, Ted Wheeler

Absent (1): Carmen Rubio