

OFFICIAL STATEMENT DATED OCTOBER 4, 2006

NEW ISSUE – NEGOTIATED  
Book-Entry-Only – Bank Qualified

RATING: Moody's: "Aaa"  
Standard & Poor's: "AAA"  
(underlying ratings)

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Bonds is exempt from State of Oregon personal income taxes. The City has designated the Bonds as bank qualified tax-exempt obligations under Section 265(b)(3) of the Code. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS."



CITY OF LAKE OSWEGO  
CLACKAMAS, MULTNOMAH AND WASHINGTON  
COUNTIES, OREGON

\$6,540,000 General Obligation Refunding Bonds Series 2006

Dated: Date of Delivery

Due: June 1, as shown on inside cover

The General Obligation Refunding Bonds, Series 2006 (the "Bonds"), will be issued by the City of Lake Oswego, Oregon (the "City"). The Bonds will be issued in the amount of \$6,540,000 and will be registered Bonds in the name of Cede & Co. as nominee of The Depository Trust Company ("DTC"), New York, New York, in \$5,000 denominations or integral multiples thereof.

**Security:** The City has pledged its full faith and credit to pay the Bonds. The City has covenanted for the benefit of the Owners to levy a direct ad valorem tax upon all of the taxable property within the City which is sufficient, after taking into consideration discounts taken and delinquencies that may occur in the payment of such taxes, to pay all Bond principal and interest when due. The City has covenanted to levy this tax each year until all the Bonds are paid. This tax shall be in addition to all other taxes of the City, and this tax shall not be limited in rate, amount or otherwise, by Sections 11 or 11b of Article XI of the Oregon Constitution.

**Use of Proceeds:** The proceeds of the sale of the Bonds will be used to advance refund certain of the City's outstanding general obligation bonds as described herein. Proceeds will also be used to pay for the cost of issuance. See "USE OF BOND PROCEEDS" herein.

**Payment Provisions:** Interest on the Bonds is payable semiannually on June 1 and December 1 of each year commencing on June 1, 2007, as provided herein. So long as the Bonds remain in the book-entry-only system, principal and interest payments will be remitted by the registrar and paying agent of the City, currently Wells Fargo Bank, National Association, Portland, Oregon (the "Registrar and Paying Agent"), to DTC, who in turn will be required to distribute such payments to DTC Participants for ultimate distribution to beneficial owners.

MATURITY SCHEDULE

Maturity (June 1)	CUSIP 510390	Principal Amount	Interest Rate	Yield	Maturity (June 1)	CUSIP 510390	Principal Amount	Interest Rate	Yield
2008	SM0	\$ 50,000	4.00%	3.45%	2014	ST5	\$665,000	4.00%	3.64%
2009	SN8	220,000	4.00	3.47	2015	SU2	695,000	4.00	3.68
2010	SP3	570,000	4.00	3.50	2016	SV0	730,000	4.00	3.73
2011	SQ1	590,000	4.00	3.52	2017	SW8	760,000	4.00	3.76
2012	SR9	615,000	4.00	3.55	2018	SX6	490,000	4.00	3.81
2013	SS7	645,000	4.00	3.60	2019	SY4	510,000	4.00	3.85

**This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire official statement to obtain information essential to the making of an informed investment decision.**

**Redemption Provisions:** The Bonds are subject to redemption prior to their stated maturities as described herein.

**Delivery:** The Bonds are offered when, as and if issued and accepted by the Underwriter, subject to the final approving opinion of Orrick, Herrington & Sutcliffe, LLP, Portland, Oregon, Bond Counsel to the City. It is expected that DTC will credit accounts for beneficial owners on or about October 18, 2006.



Wells Fargo Brokerage Services, LLC

Dated: October 4, 2006

No dealer, broker, salesperson or any other person has been authorized by the City or the Underwriter to give any information or to make any representations other than those contained in this OFFICIAL STATEMENT in connection with the offering contained herein, and, if given or made, such information or representations must not be relied upon. This OFFICIAL STATEMENT does not constitute an offer or solicitation of an offer to buy nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such offer, solicitation or sale.

The information set forth herein has been obtained from the City, DTC, and other sources that are believed to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this OFFICIAL STATEMENT nor any sale made thereafter shall under any circumstances create any implication that there has been no change in the affairs of the City or in any other information contained herein since the date hereof.

IN CONNECTION WITH THE OFFERING, THE UNDERWRITER MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN, OR OTHERWISE AFFECT THE PRICES OF THE BONDS. SUCH TRANSACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

*This Official Statement contains "forward-looking statements" within the meaning of the federal securities laws. These forward-looking statements include, among others, statements concerning expectations, beliefs, opinions, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. The forward-looking statements in this OFFICIAL STATEMENT are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such statements.*

The Underwriter has provided the following sentence for inclusion in this OFFICIAL STATEMENT: The Underwriter has reviewed the information in this OFFICIAL STATEMENT in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Wells Fargo Brokerage Services, LLC (member NASD/SIPC/Chicago Stock Exchange) is a non-bank affiliate of Wells Fargo & Company. Nondeposit investment products offered are not FDIC insured, are subject to investment risk, including loss of principal, and are not guaranteed by a bank unless otherwise specified.

**PRELIMINARY OFFICIAL STATEMENT  
OF  
CITY OF LAKE OSWEGO  
Clackamas, Multnomah and Washington Counties, Oregon**

380 "A" Avenue  
P.O. Box 369  
Lake Oswego, Oregon 97034  
(503) 635-0260  
Website: [www.ci.oswego.or.us](http://www.ci.oswego.or.us)\*

**Relating to**

**\$6,540,000 General Obligation Bonds, Series 2006**

**CITY COUNCIL**

Judie Hammerstad, Mayor  
Jack Hoffman, Council President  
Ellie McPeak  
John Turchi  
Gay Graham  
Frank Groznik  
Lynn Peterson

**ADMINISTRATIVE STAFF**

Douglas J. Schmitz, City Manager  
Richard W. Seals, Finance Director

**BOND COUNSEL**

Orrick Herrington & Sutcliffe LLP, Portland, Oregon

**UNDERWRITER**

Wells Fargo Brokerage Services, LLC, Salt Lake City, Utah

**FINANCIAL ADVISOR**

Western Financial Group, Lake Oswego, Oregon

**PAYING AGENT**

Wells Fargo Bank, National Association, Portland, Oregon

The City of Lake Oswego deems this Preliminary Official Statement to be final as of its date, except for the omission of offering prices, interest rates, selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, and other terms of the Bonds depending on such matters, in accordance with Section 240.15c2-12(b)(1) of Chapter 11 of Title 17 of the Code of Federal Regulations.

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\* The City's website is not part of this official statement, and investors should not rely on information which is presented in the City's website in determining whether to purchase Bonds. This inactive textual reference to the City's website is not a hyperlink and does not incorporate the City's website by reference.

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**CITY OF LAKE OSWEGO**  
**CLACKAMAS, MULTNOMAH AND WASHINGTON**  
**COUNTIES, OREGON**  
**\$6,540,000 General Obligation Refunding Bonds, Series 2006**

**SUMMARY STATEMENT**

**This Summary is subject in all respects to more complete information contained in this Preliminary Official Statement. The offering of the Bonds, as defined below, to potential investors is made only by means of this entire Preliminary Official Statement, including the appendices hereto. No person is authorized to detach this Summary from this Official Statement or otherwise to use it without this entire Official Statement, including the appendices hereto.**

**The Issuer of the Bonds**

The City of Lake Oswego (the "City") of Clackamas, Multnomah and Washington Counties, Oregon is issuing the General Obligation Refunding Bonds, Series 2006 (the "Bonds").

**Security**

The City has pledged its full faith and credit to pay the Bonds. The City has covenanted for the benefit of the owners to levy a direct ad valorem tax upon all of the taxable property within the City which is sufficient, after taking into consideration discounts taken and delinquencies that may occur in the payment of such taxes, to pay all Bond principal and interest when due. The City has covenanted to levy this tax each year until all the Bonds are paid. This tax is in addition to all other taxes of the City, and this tax is not limited in rate, amount or otherwise, by Sections 11 or 11b of Article XI of the Oregon Constitution.

**Authorization**

The Bonds will be issued pursuant to ORS 287.004 and applicable provisions of Oregon Revised Statutes Sections 288.605 through 288.695 and City Resolution No. 06-45, which was adopted on October 3, 2006 and authorized the sale of the Bonds.

**Use of Proceeds**

The proceeds of the sale of the Bonds will be used to advance refund certain of the City's outstanding general obligation bonds as described herein. Proceeds will also be used to pay for the cost of issuance. See "THE USE OF PROCEEDS" herein.

**Interest Schedule**

Interest on the Bonds is payable semiannually on June 1 and December 1 of each year until maturity or prior redemption, commencing on June 1, 2007, through the principal corporate trust offices of the registrar and paying agent of the City, currently Wells Fargo Bank, National Association, Portland, Oregon. Interest is calculated on based on 360 day year and twelve 30-day months.

**Redemption**

The Bonds are subject to optional redemption prior to maturity. See "REDEMPTION" herein.

**Denominations**

The Bonds will be issued in denominations of \$5,000 or integral multiples thereof.

**Registration**

The Bonds will be issued in fully registered form.

**Book-Entry-Only**

The Bonds will be issued as fully registered bonds, registered initially in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC") and subject to a Book-Entry System of registration and transfer. Individual purchasers of Bonds will not receive physical delivery of Bond certificates. Transfer of the Bonds will be made through the Book-Entry System described in Appendix D: "Book-Entry-Only System."

## **Tax Exempt Status**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Bonds is exempt from State of Oregon personal income taxes. The City has designated the Bonds as bank qualified tax-exempt obligations under Section 265(b)(3) of the Code. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS."

## **Bank Qualified**

The City has designated the Bonds as "qualified tax-exempt obligations" under Section 265(b)(3) of the Code.

## **Registrar/Paying Agent**

The Bonds will be registered and payable upon presentation at the principal corporate trust office of Wells Fargo Bank, National Association, Portland, Oregon, as paying agent. Interest on the Bonds is remitted by the paying agent to DTC, which in turn will be required to distribute such payments to DTC Participants for ultimate distribution to beneficial owners.

## **Rating**

Moody's Investors Service ("Moody's") and Standard & Poor's, a Division of the McGraw-Hill Companies ("Standard & Poor's") have assigned underlying ratings of "Aaa" and "AAA" to the Bonds, respectively. An explanation of the significance of the ratings can be obtained from the rating agencies. There are no assurances that the ratings will continue for any given period of time or that the ratings will not be revised downward or withdrawn entirely by the rating agencies if, in the judgment of the rating agencies, circumstances so warrant. Any such downward revision or withdrawal of the ratings may adversely affect the market price of the Bonds.

## **Legal Opinion**

The City has retained Orrick Herrington & Sutcliffe, LLP, Portland, Oregon, as Bond Counsel. Bond Counsel will render an opinion with respect to the validity of, and tax exemption on, the Bonds. Bond Counsel undertakes no responsibility for the accuracy, completeness, or fairness of this Official Statement.

## **Financial Advisor**

The City has retained Western Financial Group, Lake Oswego, Oregon, as Financial Advisor with respect to the issuance of the Bonds.

## **Financial Statements**

The most recent audit report is for the fiscal year ended June 30, 2005, and was rendered by Pauly, Rogers and Co., P.C., Tigard, Oregon, independent certified public accountants. The City's financial statements have received an "unqualified opinion" from the auditors. Such an opinion indicates there was no limitation on the scope of the auditor's examination and the financial statements were prepared in accordance with generally accepted accounting principles. The auditors were not requested to review this Official Statement and have not completed any additional auditing or review procedures subsequent to the issuance of their report on the 2005 fiscal year. A portion of the audit report is included as Appendix A. Copies of the complete audit are available from the City upon request.

## **Continuing Disclosure**

Pursuant to SEC Rule 15c2-12, as amended (17 CFR Part 240, § 240.15c2-12) (the "Rule"), the City, as the "obligated person" within the meaning of the Rule, has agreed to execute and deliver a Continuing Disclosure Certificate substantially in the form attached hereto as Appendix C for the benefit of the bondholders.

## **Additional Information**

For additional information regarding the Bonds, contact Wells Fargo Brokerage Services, LLC, 299 South Main Street, 5<sup>th</sup> Floor, Salt Lake City, Utah 84111; telephone (801) 246-1733; fax (801) 246-1704; e-mail: [burgestl@wellsfargo.com](mailto:burgestl@wellsfargo.com).

# OFFICIAL STATEMENT

## CITY OF LAKE OSWEGO

### CLACKAMAS, MULTNOMAH AND WASHINGTON

### COUNTIES, OREGON

## **\$6,540,000 General Obligation Refunding Bonds, Series 2006**

The purpose of this Official Statement, which includes the cover page and appendices hereto, is to provide certain information with respect to the sale and delivery of the City of Lake Oswego General Obligation Refunding Bonds, Series 2006 (the "Bonds") in the aggregate principal amounts shown on the cover hereof.

## THE BONDS

### GENERAL DESCRIPTION

The Bonds are being executed and delivered in the aggregate principal amount of \$6,540,000 and mature as set forth on the cover hereof. The interest will accrue from the date of delivery, at the rates per annum set forth on the cover, and will be payable semiannually on June 1 and December 1 of each year until maturity, commencing June 1, 2007. The Bonds will be issued in fully registered, book-entry-only form without coupons in denominations of \$5,000 each or any integral multiple thereof.

### AUTHORIZATION

The Bonds will be issued pursuant to Oregon Revised Statutes ("ORS") Sections 288.605 through 288.695 and City Resolution No. 06-45, which was adopted on October 3, 2006 and authorized the sale of the Bonds.

### SECURITY

The City has pledged its full faith and credit to pay the Bonds. The City has covenanted for the benefit of the owners to levy a direct ad valorem tax upon all of the taxable property within the City which is sufficient, after taking into consideration discounts taken and delinquencies that may occur in the payment of such taxes, to pay all Bond principal and interest when due. The City has covenanted to levy this tax each year until all the Bonds are paid. This tax is in addition to all other taxes of the City, and this tax is not limited in rate, amount or otherwise, by Sections 11 or 11b of Article XI of the Oregon Constitution.

### REGISTRAR/PAYING AGENT

The Bonds will be registered and payable upon presentation at the principal corporate trust offices of Wells Fargo Bank, National Association, Portland, Oregon, as paying agent (the "Paying Agent"). Interest on the Bonds is remitted by the paying agent to DTC, who in turn will be required to distribute such payments to DTC Participants for ultimate distribution to beneficial owners.

### REDEMPTION

#### Optional Redemption

The Bonds maturing on or after June 1, 2017 are subject to redemption prior to maturity at the option of the City in whole or in part on June 1, 2016 and on any date thereafter (with maturities selected by the City and by lot within a maturity) at a price of par, plus accrued interest to the date fixed for redemption. While the Bonds are in book entry form notice of redemption will be given to the City's Paying Agent. The Paying Agent will give notice to The Depository Trust Company, New York, New York ("DTC"), and DTC will be responsible for giving notice to bondowners. All Bonds called for redemption shall cease to bear interest on the date designated in the redemption notice. Upon surrender of such Bonds for redemption, such Bonds will be paid by the Registrar at the redemption price.



## Notice of Redemption

Unless the book-entry-only system is discontinued (See Appendix D "Book-Entry-Only System"), notice of any call for redemption shall be given to DTC not less than thirty (30) days prior to the redemption date. DTC shall be responsible for notifying the DTC participants; beneficial owners are responsible for making arrangements with the DTC participants to receive redemption notices. Interest on any of the Bonds called for redemption shall cease on the redemption date designated in the notice.

## THE USE OF PROCEEDS

The proceeds of the sale of the Bonds will be used to advance refund certain of the City's outstanding general obligation bonds. See "Refunding Plan" below. Proceeds will also pay for the cost of issuance.

### Refunding Plan

The Bonds will be issued to advance refund the callable portions of the City's General Obligation Street Improvement Bonds, Series 1997 (the "Series 1997 Bonds") and the City's General Obligation Bonds, Series 1999 (the "Series 1999 Bonds" and collectively, the "Refundable Bonds").

On the date of issuance and delivery of the Bonds, the City will defease the Refundable Bonds from the proceeds of the Bonds and from certain of the funds and accounts of the Refundable Bonds. Such monies for the defeasance of the Refundable Bonds will be deposited in an escrow account pursuant to an Escrow Deposit Agreement dated as of October 1, 2006 between the City and Wells Fargo Bank, National Association, Portland, Oregon as Escrow Deposit Agent (the "Escrow Deposit Agent") and invested in US Government Treasuries which mature in amounts sufficient to pay interest on the Refundable Bonds as such interest becomes due and to redeem the callable Refundable Bonds on the respective redemption dates at the redemption prices stated below in the Table – Refundable Bonds.

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**TABLE – Refundable Bonds**

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<b>Refundable Bonds</b>	<b>Refunded Maturities</b>	<b>Amount Outstanding</b>	<b>Amount Refunded</b>	<b>Redemption Date</b>	<b>Redemption Price</b>
Series 1997 Bonds	9/1/2008-9/1/2017	\$2,320,000	\$2,160,000	9/1/2007	100%
Series 1999 Bonds	6/1/2010-6/1/2019	5,210,000	4,270,000	6/1/2009	100%

Source: City of Lake Oswego.

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**TABLE – Sources and Uses of Bond Proceeds**

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#### **Sources of Funds**

Par Amount	\$6,540,000.00
Original Issue Premium/Discount	129,785.45
Transfers*	95,000.00
<b>Total sources of funds</b>	<b>\$6,764,785.45</b>

#### **Uses of Funds**

Escrow Deposit	\$6,673,567.11
Costs of Issuance	52,425.00
Underwriter's Discount	35,970.00
Rounding Amount	2,823.34
<b>Total Uses of Funds</b>	<b>\$6,764,785.45</b>

\* Transfers from Funds and Accounts of Refundable Bonds

**TABLE –Voter Approved General Obligation Bond Requirements – Outstanding and Proposed**

Ending 30-Jun	Outstanding Bonds <sup>1</sup>		2006 Bonds		Total Requirements
	Principal	Interest	Principal	Interest	
2007	\$ 2,080,000	\$1,000,554	\$ 0	\$162,047	\$3,242,601
2008	2,160,000	882,350	50,000	261,600	3,353,950
2009	2,065,000	811,068	220,000	259,600	3,355,668
2010	1,790,000	734,365	570,000	250,800	3,345,165
2011	1,850,000	670,191	590,000	228,000	3,338,191
2012	1,940,000	600,521	615,000	204,400	3,359,921
2013	2,020,000	522,571	645,000	179,800	3,367,371
2014	1,450,000	429,050	665,000	154,000	2,698,050
2015	1,190,000	368,565	695,000	127,400	2,380,965
2016	1,235,000	317,134	730,000	99,600	2,381,734
2017	995,000	262,501	760,000	70,400	2,087,901
2018	1,040,000	217,359	490,000	40,000	1,787,359
2019	1,095,000	169,601	510,000	20,400	1,795,001
2020	1,140,000	118,051	-	-	1,258,051
2021	635,000	64,044	-	-	699,044
2022	730,000	34,675	-	-	764,675
<b>Totals</b>	<b>\$23,415,000</b>	<b>\$7,202,596</b>	<b>\$6,540,000</b>	<b>\$2,058,047</b>	<b>\$39,215,647</b>

NOTE: The table presents the voter approved General Obligation debt service requirements due after July 1, 2006, which includes debt service already paid. Certificates of Participation, contracts, leases and notes are not included. Totals may not foot due to rounding.

1. The Outstanding Bonds columns include the principal and interest due on the non-refunded Series 1997 and Series 1999 Bonds. The callable Series 1997 Bonds and Series 1999 Bonds, which are being refunded with proceeds of the Bonds, are excluded from this table.

Source: City of Lake Oswego.

# THE CITY

## GENERAL DESCRIPTION

The City of Lake Oswego, located eight miles southwest of Portland on the Willamette River, covers an area of approximately ten square miles, including the 405-acre Oswego Lake. The City, with an estimated 2006 population of 36,075, is located in three counties, the largest portion in Clackamas County, with small areas in Multnomah and Washington counties.

## GOVERNMENT

The City of Lake Oswego was incorporated in 1910 and operates as a home rule city with a council-manager form of government. The Mayor and six councilors are elected at large on a non-partisan basis for overlapping four-year terms. The City provides a broad range of urban services to its residents, including police and fire, land use planning and zoning, streets, water, wastewater and surface water collection and treatment, recreation and library services.

## CITY COUNCIL

Current members of the City Council are shown in the following table.

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**TABLE – City of Lake Oswego - City Council**

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<b>Council Member</b>	<b>Occupation</b>	<b>Term Expires</b>
Judie Hammerstad, Mayor	Retired	12/31/08
Jack Hoffman, Council President	Attorney	12/31/06
John Turchi	Retired	12/31/08
Gay Graham	Retired	12/31/06
Ellie McPeak	Retired	12/31/08
Frank Groznik	Environmental Consultant	12/31/08
Lynn Peterson	Consultant	12/31/06

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Source: City of Lake Oswego.

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## KEY CITY ADMINISTRATION AND MANAGEMENT

**Douglas J. Schmitz, City Manager**, has served in Lake Oswego since March 1992. His previous experience includes positions as Assistant City Manager in Laguna Beach, California, and Bellevue, Washington, and as City Manager of Normandy Park, Washington. He also served as the City Administrator of Carmel-by-the-Sea, California. Mr. Schmitz received his B.A. from San Diego State University and his MPA from Seattle University.

**Richard W. Seals, Finance Director**, has served the City of Lake Oswego since 1999. Prior to joining the City of Lake Oswego, Mr. Seals was the Controller for the Oregon State Lottery. He received undergraduate degrees in Accounting and Information Systems Management as well as a MBA from California State University Hayward. Mr. Seals holds three professional licenses: Certified Public Accountant, Certified Management Accountant, and Certified in Financial Management.

## CITY STAFF AND BARGAINING UNITS

As of June 30, 2006, the City has 292 full-time employees and 45 part-time employees. The majority of City employees who are eligible under State law to be represented by a labor organization, are employed under provisions of negotiated contracts with the three labor organizations. The City enters into written bargaining agreements with each of the bargaining organizations. The agreements contain provisions on such matters as salaries, vacation, sick leave, medical and dental insurance, working conditions, and grievance procedures.

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**TABLE – Bargaining Units**

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<b>Bargaining Unit</b>	<b>Number of Employees</b>	<b>Termination Date of Current Contract</b>	<b>Status of Contract</b>
Lake Oswego Police Officers Association	45	6/30/07	Settled
International Association of Firefighters	48	6/30/07	Settled
Lake Oswego Municipal Employees Association	141	6/30/07	Settled

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Source: City of Lake Oswego

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# CITY FINANCIAL INFORMATION

## FISCAL YEAR

The fiscal year for the City commences on July 1 and ends on June 30 of the following year.

## SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

## BASIS OF ACCOUNTING

The government-wide financial statements are presented on a full accrual basis of accounting with an economic resource measurement focus, as are the proprietary funds financial statements. An economic resource focus concentrates on an entity or fund's net assets. All transactions and events that affect the total economic resources (net assets) during the period are reported. An economic resources measurements focus is inextricably connected with full accrual accounting. Under the full accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash inflows and outflows. The City's accounting practices conform to generally accepted accounting principles (GAAP). See "APPENDIX A" Note 1 C.

Each year since 1992 the City has received the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada for the Comprehensive Annual Financial Report. Also, the City has received for the sixth consecutive time, the Award for Outstanding Achievement in Popular Annual Financial Reporting for its Popular Annual Financial Report.

## BUDGETING PROCESS

The City prepares a biennial budget in accordance with provisions of the Oregon Local Budget Law (ORS 294), which provides standard procedures for the preparation, presentation, administration and appraisal of budgets. The law mandates public involvement in budget preparation and public exposure of its proposed programs. The law also requires that the budget be balanced.

Prior to adoption, the proposed budget must be approved by a budget committee consisting of the Mayor and six City Councilors and an equal number of laypersons. In an advertised public meeting, the budget committee reviews the budget and the "budget message," which explains the budget and significant changes in the local government's financial position. All budget committee meetings are open to the public.

Following budget approval by the budget committee, another public hearing is held by the City Council. A budget summary and notice of hearing are published prior to the hearing. Publication is governed by strict requirements as to time and mode.

The City Council has adopted an ending fund balance and contingency policy for all major funds. In accordance with the policy for the General Fund contingency, the General Fund contingency is equal to 50% of General Fund annual operating expenses. The City has received the Distinguished Budget Presentation Award for each period since its 1990-00 budget.

## INDEPENDENT AUDIT REQUIREMENT

In accordance with the Oregon Municipal Audit Law (ORS 297.405 to 297.555 and 297.990) an audit is conducted at the end of each Fiscal Year by independent certified public accountants. This requirement has been complied with and the financial statements have received an "unqualified opinion" from the auditors. Such an opinion indicates there was no limitation on the scope of the auditor's examination and the financial statements were prepared in accordance with generally accepted accounting principles.

The City's audit for Fiscal Year 2004-05 was performed by Pauly, Rogers and Co., P.C., Tigard, Oregon. The auditors did not review this statement and offer no opinion regarding this Official Statement. A copy of the 2005 audit is available upon request to the City. The City's General Purpose Financial Statements for fiscal year ended June 30, 2005 are included in Appendix A. Copies of the complete audit are available from the City upon request.

## **PENSION PLAN**

Substantially all City employees, after six months of employment, are participants in the Oregon Public Employees Retirement System (“PERS”) Plan or the Oregon Public Service Retirement Plan (“OPSRP”). The PERS Plan is a defined benefit pension plan that provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and their beneficiaries. Different benefit structures apply to participants depending on their date of hire. Retirement benefits for PERS Plan members are based on final average salary and length of service and are calculated under a full formula method, formula plus annuity method, or money match method if a greater benefit results.

The 72nd Oregon Legislature created OPSRP. Public employees hired on or after August 29, 2003 and any inactive PERS members who return to employment following a six month or greater break in service become part of OPSRP. Beginning January 1, 2004, PERS Plan employee contributions were directed to an individual retirement account and will be part of a separate defined contribution program under OPSRP. OPSRP is a hybrid (defined contribution/defined benefit) pension plan with two components. Employer contributions fund the defined benefit program and employee contributions fund individual retirement accounts under the separate defined contribution program.

Every two years the Public Employees Retirement Board (“PERB”) establishes the contribution rates that employers will pay to fund the obligations of PERS, OPSRP and the PERS-sponsored Retirement Health Insurance Account Plan (“RHIA”) (See “Other Post-Employment Retirement Benefits” below.) The rates are based upon the current and projected cost of benefits and the anticipated level of funding available from the Oregon Public Employee’s Retirement Fund, including known and anticipated investment performance of the fund. Covered employees are required by state statute to contribute 6 percent of their annual salary to the PERS Plan or OPSRP, but the employer is allowed to pay any or all of the employee’s contribution in addition to the required employers’ contribution.

Employer contribution rates may increase or decrease due to a variety of factors, including the investment performance of the PERS fund, the use of reserves, changes to system valuation methodology and assumptions and the outcome of litigation relating to legislative changes and PERB action. Contribution rates for the period between July 1, 2007 through June 30, 2009 will be calculated based upon the December 31, 2005 actuarial valuation, scheduled to be finalized and presented to PERB in late 2006.

On June 30, 2006, the PERS actuary released an interim actuarial update for employers as of December 31, 2004 (the “2004 Interim Valuation”). The 2004 Interim Valuation uses new actuarial methodologies approved by PERB in April 2006. Employer contribution rates will not be adjusted based on the 2004 Interim Valuation, and as discussed above, will be calculated based on the December 31, 2005 valuation. The City anticipates that its employer contribution rates will increase for the period of July 1, 2007 through June 30, 2009.

### **The City’s Pension Plan**

The City has elected to participate in a pool with the State of Oregon and other Oregon local governments and community college public employers for its PERS pension program (the “State and Local Government Rate Pool” or “SLGRP”). The City’s portion of the SLGRP’s assets and liabilities and its employer contribution rate is based on the City’s proportionate share of SLGRP’s pooled payroll.

The City’s current employer rate for the period between July 1, 2005 and June 30, 2007 is based on the December 31, 2003 actuarial valuation and is 15.77% for PERS general service employees (non public safety employees) 10.11% for OPSRP general service employees, and 13.72% for OPSRP police and fire. These rates do not include the 6% employee contribution rate which the City has elected to make on behalf of employees. The 2004 Interim Valuation indicates that the City has an accrued actuarial deficit of \$13.6 million. As of December 31, 2003, the City had an actuarial deficit of \$13.0 million.<sup>1</sup>

### **Legal Challenges**

The 2003 Oregon Legislative Assembly enacted significant changes to PERS (the “2003 PERS Legislation”) that were intended to reduce costs for participating employers, including the City. Several Oregon employees filed lawsuits challenging various aspects of the 2003 PERS Legislation. The 2003 PERS Legislation, among other things, affected the earnings calculation on the accounts of certain PERS Plan members (known as Tier One members); created the OPSRP retirement program; blocked further contributions to variable rate accounts, and required updated actuarial tables. The initial challenges to the 2003 PERS Legislation were consolidated and decided by the Oregon Supreme Court in 2005. Several additional lawsuits remain pending in the Oregon state circuit courts and in the United States Court of Appeals for the Ninth Circuit.

The 2003 PERS Legislation also provided a statutory remedy to a prior case filed by the City of Eugene and other public employers. In that case, the trial court ruled, among other things, that PERB credited too much in 1999 earnings to certain member accounts. The decision was appealed by PERS members who intervened in the case. The original parties in the case entered into a settlement agreement in which PERB agreed, among other things, to reduce the 1999 earnings credited to certain

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<sup>1</sup> This balance reflects changes in the actuarial methodologies approved by PERB in April 2006.

member regular accounts. In 2005, the Oregon Supreme Court dismissed the appeal of the case as moot and in July 2006, the court vacated the underlying trial court judgment.

The Supreme Court's decision in the City of Eugene appeal will affect certain pending cases that challenge PERB's actions taken to address the 1999 over-crediting addressed in the litigation, the City of Eugene settlement, and the 2003 PERS Legislation. This decision will most directly affect a class action suit filed by certain retirees which challenges PERB's recovery of funds from the 1999 earnings over-crediting. The amount at issue is approximately \$800 million. If the court finds in favor of the retirees, PERS may be required to devise an alternative method to recover the funds.

The recently released 2004 Interim Valuation takes into account the court decisions in existence when the valuation was completed. The outcome of the pending federal and state cases challenging the Legislature's and PERB's actions may affect the system's and the City's unfunded actuarial liability in the future.

## **OTHER POST-EMPLOYMENT BENEFITS**

Retirees who receive pension benefits through the PERS plan and are enrolled in certain PERS-administered health insurance programs, may also receive a subsidy towards the payment of health insurance premiums. Under ORS 238.420, retirees may receive a subsidy for Medicare supplemental health insurance of up to \$60 per month towards the cost of their health insurance premiums under the Retiree Health Insurance Account (RHIA) program. RHIA's assets and liabilities are pooled on a system-wide basis. These assets and liabilities are not tracked or calculated on an employer basis or allocated to individual employers. Based upon the 2004 Interim Valuation, the RHIA program had an unfunded actuarial liability of approximately \$408.9 million, which represents a funded ratio of 27%. Each city's employer contribution rate for the RHIA plan for the period between July 1, 2005 through June 30, 2007 is 0.59% of covered payroll, which is included in the employer contribution rates reported above. The valuation information for RHIA has been calculated under General Accounting Standards Board (GASB) Statement No. 43 valuation standards.

Oregon municipalities, including the City, are required to allow retirees and their dependents to continue to receive health insurance by paying the premiums themselves at a rate that is blended with the rate for current employees until retirees and spouses are eligible for federal Medicare coverage and until children reach the age of 18. GASB 45 refers to this as an implicit subsidy and therefore requires the corresponding liability to be determined and reported.

The City is currently assessing its liability for post-employment benefits outside of RHIA in anticipation of the reporting requirements specified by GASB Statement No. 45. The City expects to report its respective OPEB liabilities in conformance with GASB 45 requirements beginning with the fiscal year ending June 30, 2008.

## **INVESTMENT POLICY**

Oregon Revised Statutes and the City's investment policy authorize the City to invest primarily in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, high-grade corporate indebtedness, and the State of Oregon Local Government Investment Pool. As of June 30, 2005, the City had \$39,557,900 in the State of Oregon Local Government Investment Pool and \$8,864,871 invested in US Government Agency Securities. See "Appendix A – Note 3. A. As of June 30, 2006, the City had \$35,573,128 (unaudited) in the State of Oregon Local Government Investment Pool and \$9,852,411 (unaudited) invested in US Government Agency Securities.

## **INSURANCE**

The City pays an annual premium to City/County Insurance Services (CIS) for its general insurance coverage. The agreement with CIS provides that CIS will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event. Settled claims have not exceeded coverage in any of the last three fiscal years. The City carries commercial insurance for all other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims have not exceeded commercial coverage in any fiscal year. See "APPENDIX A-Note 4.A.

## **Litigation related to Tort Claims Against Oregon Governments**

On July 5, 2006, the Oregon Court of Appeals decided a case, *Clarke v. Oregon Health Sciences University* ("OHSU"), challenging the constitutionality of parts of the Oregon Tort Claims Act ("OTCA"). Under the OTCA, the State's common law sovereign immunity from suit is lifted and claims may be brought against a public body in Oregon, including the City. The liability of public bodies, however, is capped at \$200,000 for individual personal injury claims. In addition, the public body has to be substituted as a defendant in lieu of individual employees of the public body, thereby limiting recovery for claims against individual employees to the limits applicable to public bodies. In *Clarke*, the plaintiff was severely disabled as a result of the negligence of health professionals employed at OHSU, which is a public body. The damages alleged amounted to approximately \$12 million.

Article I, Section 10 of the Oregon Constitution provides the right to a remedy to persons who are injured in their person, property or reputation. The *Clarke* court concluded that the \$200,000 cap on the amount of potential recovery did not provide a substantial remedy to plaintiff in lieu of what plaintiff would have been able to claim at common law from individual government employees who were admittedly negligent. Therefore, the substitution of OHSU for the individual plaintiffs, under the facts at issue in *Clarke*, violated Article I, Section 10 of the Oregon Constitution.

The impact of the court's holding in this case on other public bodies, such as the City, is uncertain. OHSU has asked the Oregon Supreme Court to review the Court of Appeals decision. Under the OTCA, the City currently indemnifies its employees for liability that they incur due to negligence within the scope of their work. Accordingly, if the decision is upheld by the Oregon Supreme Court it may mean that the City must pay higher amounts to indemnify its employees who would not be protected by the damage cap.

Presently, it is too early to determine a specific course of action the City may take if the Oregon Supreme Court upholds the decision in *Clarke*.

The following table reflects the General Fund Balance Sheets for the previous five years and is derived from the City's audited annual financial statements.

**TABLE – City of Lake Oswego – Five-Year General Fund Consecutive Balance Sheets as of June 30**

	2001	2002	2003	2004	2005
<b>Assets and other debits</b>					
Cash & investments	\$4,816,205	\$5,967,687	\$4,844,947	\$4,358,798	\$4,977,877
<b>Receivables</b>					
Property taxes	108,885	131,926	101,337	109,500	138,308
Accounts	106,572	89,321	134,904	201,052	227,085
Interest	3,765	9,623	11,853	202	4,275
Due from other funds	9,218	--	--	--	--
Other assets	27,198	--	--	--	--
<b>Total assets &amp; other debits</b>	<b>\$5,071,843</b>	<b>\$6,198,557</b>	<b>\$5,093,041</b>	<b>\$4,669,552</b>	<b>\$5,347,545</b>
<b>Liabilities &amp; fund equity</b>					
<b>Liabilities</b>					
Accounts payable	\$161,403	\$158,091	\$194,199	\$248,427	\$198,087
Salaries and benefits payable	34,800	--	22,946	54,949	45,900
Deferred revenue	101,503	125,072	93,822	96,975	120,270
<b>Total liabilities</b>	<b>297,706</b>	<b>283,163</b>	<b>310,967</b>	<b>400,351</b>	<b>364,257</b>
<b>Fund equity</b>					
<b>Fund balances</b>					
Unreserved – undesignated	4,774,137	5,915,394	4,782,074	4,269,201	4,983,288
<b>Total fund equity</b>	<b>4,774,137</b>	<b>5,915,394</b>	<b>4,782,074</b>	<b>4,269,201</b>	<b>4,983,288</b>
<b>Total liabilities &amp; fund equity</b>	<b>\$5,071,843</b>	<b>\$6,198,557</b>	<b>\$5,093,041</b>	<b>\$4,669,552</b>	<b>\$5,347,545</b>

Source: Derived from annual audited financial statements of the City.



The following table reflects the General Fund Statement of Revenues, Expenditures and Changes in Fund Balance for the previous five years and is derived from the City's audited annual financial statements.

**TABLE – City of Lake Oswego - Statement of Revenues, Expenditures and Changes in Fund Balance - General Fund as of June 30**

	2001	2002	2003	2004	2005
<b>Revenues</b>					
Property taxes <sup>1</sup>	\$1,352,946	\$2,481,124	\$901,511	\$864,892	\$594,369
Franchise fees	--	--	335,000	--	241,813
Intergovernmental	528,311	549,826	622,350	869,729	929,520
Licenses & fees	643,016	690,511	859,452	788,388	854,169
Sales and services	1,920	3,832	6,250	1,990	1,149
Charges for service	2,582,158	2,593,006	2,676,955	2,741,834	2,769,114
Miscellaneous	333,973	160,294	189,204	190,029	185,306
<b>Total revenues</b>	<b>5,442,324</b>	<b>6,478,593</b>	<b>5,590,722</b>	<b>5,456,862</b>	<b>5,575,440</b>
<b>Expenditures</b>					
<b>Current</b>					
General government	5,005,017	5,207,229	5,493,130	5,856,000	5,865,029
Capital outlay	720,700	420,607	1,409,931	189,735	269,104
<b>Total expenditures</b>	<b>5,725,717</b>	<b>5,627,836</b>	<b>6,903,061</b>	<b>6,045,735</b>	<b>6,134,133</b>
Revenues over (under) expenditures	(283,393)	850,757	(1,312,339)	(588,873)	(558,693)
<b>Other financing sources (uses)</b>					
Operating transfers in	336,574	290,500	179,019	76,000	76,000
Operating transfers out	(569,500)	--	--	--	--
Proceeds from sale of capital assets	--	--	--	--	1,196,780
Advance (to) from other funds	(598,011)	--	--	--	--
<b>Total other financing sources (uses)</b>	<b>(830,937)</b>	<b>290,500</b>	<b>179,019</b>	<b>76,000</b>	<b>1,272,780</b>
<b>Net change in fund balances</b>	<b>(1,114,330)</b>	<b>1,141,257</b>	<b>(1,133,320)</b>	<b>(512,873)</b>	<b>714,087</b>
<b>Fund balance -- beginning of year</b>	<b>5,888,467</b>	<b>4,774,137</b>	<b>5,915,394</b>	<b>4,782,074</b>	<b>4,269,201</b>
<b>Fund balance -- end of year<sup>2</sup></b>	<b>\$4,774,137</b>	<b>\$5,915,394</b>	<b>\$4,782,074</b>	<b>\$4,269,201</b>	<b>\$4,983,288</b>

1. The City allocates property taxes to five separate funds depending upon the resource and requirement needs of each. The Public Safety Fund receives the largest allocation of approximately 50 percent, whereas the General Fund is typically allocated around 2 to 5 percent. The total amount of property taxes received for the above five fiscal years is as follows: FY2001- \$19,788,000; FY2002 – \$21,223,000; FY2003 - \$22,863,000; FY2004 - \$24,468,000; FY2005 - \$26,058,000; and FY2006 (unaudited) \$26,981,000.
2. The General Fund's ending fund balance fluctuates slightly over the years, but generally, it is maintained at just under \$5 million. The City's fund balance policy for the General Fund is 50% of budgeted annual operating expenses or about \$3 million. For fiscal year ended June 30, 2006, the General Fund's ending fund balance is \$4,918,000 (unaudited).

Source: Derived from annual audited financial statements of the City.

## DEBT INFORMATION

**TABLE – Debt Ratios**

	Values	Per Capita	Percent of RMV
2006 estimated population	36,075	--	--
2006 Real Market Value (RMV)	\$6,847,588,629	189,815	--
Total Direct Debt <sup>1</sup>	49,956,913	1,385	0.73%
Overlapping Debt (as of 6/30/06)	81,114,349	2,248	1.18%
Total Direct Debt and Overlapping Debt	131,071,262	3,633	1.91%

Note: Outstanding debt information is calculated as of October 1, 2006 except for the overlapping debt calculation. The overlapping debt calculation was performed by Debt Management Division, Oregon State Treasury as of June 30, 2006.

- Total Direct Debt includes all voter approved General Obligation bonds, Limited Tax bonds and any other obligations, Certificates of Participation or leases backed by the full faith and credit of the City. Debt whose term is less than one year is not included.

Source: Municipal Debt Advisory Commission, Oregon State Treasury; City of Lake Oswego.

### DEBT LIMITATION

ORS 287.004 limits the general obligation debt which an Oregon city may have outstanding at any time to three percent of the real market value of the city, although self-supporting debt, revenue bonds, general obligation improvement bonds, water, gas, power, hospital, sewer and certain parking facility bonds are legally exempt from this debt limitation.

2006 RMV	\$6,847,588,629
Debt limitation (3% of RMV)	\$205,427,658
Applicable bonded debt (includes this issue)	\$29,800,000
Debt margin	\$175,627,658
Percent of limit issued	14.5%

### DEBT MANAGEMENT

The City has never defaulted on a debt obligation. The City has not used bond proceeds for operational purposes.

## OUTSTANDING OBLIGATIONS

**TABLE – City of Lake Oswego - Outstanding Obligations**

	<b>Dated Date</b>	<b>Maturity Date</b>	<b>Amount Issued</b>	<b>Amount Outstanding: As of 10/01/06</b>
<b>GENERAL OBLIGATION BONDS, tax supported</b>				
General Obligation Refunding, Series 2006 <sup>1</sup>	10/1/06	6/1/19	\$6,540,000	\$6,540,000
General Obligation Refunding, Series 2003A	5/1/03	6/1/13	6,065,000	4,105,000
Open Space/Park Renovation/Refunding, Series 2003	2/1/03	6/1/22	14,735,000	13,110,000
Open Space/Field Renovation, Series 2001	5/1/01	6/1/20	6,000,000	4,945,000
Open Space/Field Renovation, Series 1999 <sup>2</sup>	8/1/99	6/1/19	7,000,000	940,000
Street Improvements, Series 1997 <sup>2</sup>	12/1/97	9/1/17	3,470,000	160,000
<b>Total Tax Supported G.O. Bonds</b>			<b>\$43,810,000</b>	<b>\$29,800,000</b>
<b>DEBT SECURED BY THE GENERAL FUND</b>				
Line of Credit, Series 2006 <sup>3</sup>	7/6/06	7/6/09	\$20,156,913	\$20,156,913
<b>TOTAL DIRECT DEBT<sup>4</sup></b>			<b>\$63,966,913</b>	<b>\$49,956,913</b>
<b>REVENUE BONDS</b>				
Water Revenue Bonds, Series 1999	8/1/99	8/1/19	\$7,185,000	\$5,735,000
Surface Water Revenue Bonds, Series 2005	4/6/05	12/1/23	3,000,000	2,905,000
<b>TOTAL REVENUE BONDS</b>			<b>\$10,185,000</b>	<b>\$8,640,000</b>

1. Reflects final amount of Bond issued scheduled to close 10/18/06.

2. Reflects the amount outstanding after refunding.

3. See comments below – SHORT-TERM BORROWING

4. Total Direct Debt includes all voter approved General Obligation bonds, Limited Tax bonds and any other obligations, Certificates of Participation or leases backed by the full faith and credit of the City. Debt whose term is less than one year is not included.

Note: Lake Oswego Redevelopment Agency has \$9,665,000 of non-taxable and \$7,795,000 of taxable Urban Renewal Bonds outstanding.

Source: City of Lake Oswego.

## SHORT-TERM BORROWING

**Property Acquisition and Line of Credit Funding.** On July 7, 2006, the City closed escrow on the purchase of the Safeco Property. This property is a 14 acre site on Kruse Way that is being considered for a new multi-use, multi-generational Community Center for the citizens of Lake Oswego. This site is considered a good location for a community center given its size and central location in Lake Oswego. A citizens' Steering Committee is leading the concept design process with the assistance of the project design team. The Committee's charge is to develop a preferred program and plan for the Community Center based on the City Council's adopted vision and guiding principles for its design and operations. Based on input from the public, the City Council has also generated a list of possible uses and activities that will be considered as part of the planning process for the Center.

BOORA Architect, a Portland architect firm, has been selected to be the lead for the project design team. Over the next year, the Steering Committee and design team will narrow down concept alternatives and present a final recommendation for a preferred design to the City Council. Following this, Lake Oswego voters will have the opportunity to decide whether or not the Community Center should be funded and built.

On July 6, 2006, a line of credit in the total amount of \$25 million was secured. This funding source was used to reimburse the City the \$1 million deposit paid in June 2006, and the balance of \$19 million that was paid upon closing, July 7, 2006. The available line of credit balance of \$5 million is available to reimburse the City for future design and development expenses, including interest, until future general obligation financing may be authorized by the voters of the City. On July 10, 2006, \$20,156,913 was withdrawn from this line of credit to reimburse the City for this property purchase. As of September 30, 2006, \$20,156,913 is also the outstanding amount due on the line.

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**TABLE – City of Lake Oswego – Overlapping Debt**

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As of June 30, 2006

<b>Overlapping District</b>	<b>Debt Outstanding</b>	<b>Percent Overlapping</b>	<b>Amount Overlapping</b>
<b>Governmental unit</b>			
Lake Oswego SD #7J	\$ 79,215,000	86.13%	\$ 68,230,494
Metro	113,842,201	4.36%	4,967,504
Portland Community College	73,895,000	5.49%	4,055,136
Tri-Met	77,420,000	4.39%	3,398,506
Clackamas Community College	45,780,000	0.27%	122,278
Multnomah County	67,510,000	0.48%	327,018
Washington County	48,595,000	0.03%	13,412
<b>Total Overlapping Debt</b>			<b>\$81,114,349</b>

Source: Municipal Debt Advisory Commission, Oregon State Treasury.

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**FUTURE FINANCING PLANS**

The City's current five-year Capital Improvement Plan (CIP) was adopted by the City Council in the Spring of 2005. This comprehensive plan combines projects in the areas of streets, parks and recreations, water, sewer, surface water and general government. There is approximately \$65 million in sewer revenue bonds and \$5 million in surface water revenue bonds anticipated in the future.

In addition to the CIP, the City plans to approach the voters in November 2008 with a general obligation financing plan to construct a recreational facility. These plans are in the preliminary stages. The table below shows the City's levy election history for the last ten years.

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**TABLE – City of Lake Oswego - Levy Election History**

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<b>Date</b>	<b>Purpose</b>	<b>Amount Requested</b>	<b>Votes</b>		<b>Margin</b>	<b>Percent Passed (Failed)</b>
			<b>Yes</b>	<b>No</b>		
11/5/02	Parks, Open Space, Pathways	\$9,750,000	9,248	6,805	2,243	57.61%
11/3/98	Sports Field Renovation Open space acquisition	13,000,000	8,706	5,678	3,028	60.52
11/5/96	City/School Partnership (3-year Serial Levy)	1,157,222	9,968	6,612	3,356	60.12
5/21/96	G.O. Road Improvement Bonds	6,970,000	5,323	2,919	2,404	64.58

Source: City of Lake Oswego.

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# PROPERTY TAX INFORMATION

## GENERAL

**Taxes levied to pay the Bonds are not subject to the limitations of Section 11 and 11b Article XI of the Oregon Constitution.**

The property tax is used by Oregon cities, counties, education districts, and other special districts to raise revenue to cover a portion of the expense of local government.

The State of Oregon has not levied property taxes for general fund purposes since 1941 and obtains its revenue principally from income taxation.

The Oregon Constitution places certain limits on property tax rates for general purposes. The Constitution does not limit property tax rates for general obligation bonds for capital construction and improvements approved in accordance with certain voting requirements or used to refund certain outstanding general obligation bonds (see **"GENERAL OBLIGATION BONDS"** below).

The City has covenanted to levy a property tax each year that is sufficient to pay the Bond principal and interest that is due in that year. This tax is not limited by the Oregon Constitution.

## ASSESSMENT

The process of identifying and assigning a value to taxable property is termed "assessment." Assessment is administered by the County Assessor except for public utility property and certain classes of industrial property which are assessed by the State Department of Revenue. Administrative and judicial remedies are available to property owners, who disagree with assessments.

Property subject to taxation includes all privately owned real property (land, buildings and improvements) and personal property (machinery, office furniture and equipment) for non-residential taxpayers. There is no property tax on household furnishings (exempt in 1913), personal belongings, automobiles (exempt in 1920), crops, orchards, business inventories or intangible property such as stocks, bonds or bank accounts, except for centrally assessed utilities, for which intangible personal property is subject to taxation. Property used for charitable, religious, fraternal and governmental purposes has been exempt and reductions in assessments have been granted (upon application) for veterans' homesteads, farm and forestland, open space and historic buildings. The assessment roll, a listing of all taxable property, will be prepared as of January 1 of each year.

Certain properties, such as utilities, are valued on the unitary valuation approach (ORS 308.505 to 308.665). Under the unitary valuation approach, the taxpaying entity's operating system is defined and a value is assigned for the operating unit using the market value approach (cost, market value and income appraisals). Values are then allocated to the entity's operations in Oregon, to each county the entity operates in, and finally to site locations.

## SECTION 11 OF THE OREGON CONSTITUTION

Section 11 granted all local governments who levied property taxes for operations in FY 1997-1998 a permanent tax rate that was based on the taxing authority of those governments before Ballot Measure 50 was adopted. Permanent tax rates cannot be increased. The City's permanent tax rate is \$5.0353/\$1,000. The City is currently levying below the maximum permanent rate at \$4.9703.

Section 11 provides that property that was subject to ad valorem taxation in fiscal year 1997-1998 will have an Assessed Value (as defined herein) in that fiscal year that is equal to 90 percent of its fiscal year 1995-96 estimated market value. Section 11 limits annual increases in Assessed Value to three percent (3%) for fiscal years after 1997-98, unless the property changes because it is substantially improved, rezoned, subdivided, annexed, or ceases to qualify for a property tax exemption.

New construction and changed property is not assessed at its estimated market value. (In Oregon, the assessor's estimate of market value is called "Real Market Value.") Instead, it receives an Assessed Value that is calculated by multiplying the Real Market Value of the property by the ratio of Assessed Values of comparable property in the area to the Real Market Values of those properties. This produces an Assessed Value for new construction and changed property that approximates the Assessed Value of comparable property in the area.

Section 11 requires that new taxes be approved at an election that meets the voter participation requirements described below.

1. Local governments that have permanent tax rates cannot increase those rates. Governments, including school districts and community colleges, however, can obtain the authority to levy "local option taxes" (see below).
2. Section 11 limits property tax collections by limiting increases in Assessed Value, by preventing increases in permanent tax rates, and through its voter participation requirements (see below).

In addition to permanent rate levies and local option levies, Section 11 allows:

1. Some urban renewal districts that were in existence when Measure 50 was adopted to impose taxes throughout the boundaries of their creating city or county;
2. Local governments to impose taxes to pay general obligation bonds (see below).

## **SECTION 11B**

A citizen initiative often called "Measure 5," was added to the Oregon Constitution as Article XI, Section 11b. This section ("Section 11b") limits property tax collections by limiting the tax rates (based on Real Market Value) that are imposed for government operations.

Section 11b divides taxes imposed upon property into two categories: "non-school taxes" that fund the operations of local governments other than schools; and, "school taxes" that fund operations of the public school system and community colleges. Section 11b limits rates for combined non-school taxes to \$10 per \$1,000 of Real Market Value, and rates for school taxes to \$5 per \$1,000 of Real Market Value.

If the combined tax rates within a category exceed the rate limit for the category, local option levies are reduced first, and then permanent rate levies and urban renewal levies are reduced proportionately to bring taxes within the rate limit.

Taxes levied to pay general obligation bonds that comply with certain provisions are not subject to the rate limits of Section 11b.

In addition to limiting ad valorem property taxes, Section 11b also restricts the ability of local governments to impose certain other charges on property and property ownership.

The City has experienced no loss of revenue due to Measure 5 compression.

## **LOCAL OPTION TAXES**

Local governments (including community colleges and school districts but excluding education service districts) may obtain voter approval to impose local option taxes. Local option taxes are limited to a maximum of ten years for capital purposes and a maximum of five years for operating purposes.

Local option levies are subject to the "special compression" under Section 11b. If operating taxes for non-school purposes exceed the \$10 per \$1,000 limit, local option levies are reduced first to bring operating taxes into compliance with this limit. This means that local option levies can be entirely displaced by future approval of permanent rate levies for new governments, or by urban renewal levy.

The City currently does not have a local option levy for operations.

## **VOTER PARTICIPATION**

New local option levies, taxes to pay general obligation bonds (other than refunding bonds), and permanent rate limits for governments that have not previously levied operating taxes must be approved at an election that meets the voter participation requirements established by Section 11. Section 11 requires those taxes to be approved by a majority of the voters voting on the question either: (i) at a general election in an even numbered year, or (ii) at any other election in which not less than fifty percent (50%) of the registered voters eligible to vote on the question cast a ballot.

In many localities in Oregon, it is unusual for more than fifty percent of registered voters to cast ballots at an election other than a general election in an even numbered year.

## **GENERAL OBLIGATION BONDS**

Levies to pay the following general obligation bonds are exempt from the limits of Section 11 and 11b:

- 1) general obligation bonds authorized by a provision of the Oregon Constitution (this applies to State of Oregon general obligation bonds);
- 2) general obligation bonds issued on or before November 6, 1990;
- 3) general obligation bonds which were approved by a majority of voters after November 6, 1990 and before December 5, 1996, which are issued to finance capital construction or capital improvements;
- 4) general obligation bonds which were approved after December 5, 1996, which are issued to finance capital construction or capital improvements, and which met the voter participation requirements described above; and
- 5) obligations issued to refund the general obligation bonds described in the preceding four subparagraphs.

Taxes levied by the City to pay the Bonds are not limited by Section 11 or 11b.

## COLLECTION

County tax collectors extend authorized levies, compute tax rates, bill and collect all taxes and make periodic remittances of collections to tax levying units. County tax collectors are charged with calculating public school and local government taxes separately, calculating any tax rate reductions to comply with tax limitation law, and developing percentage distribution schedules. Tax collectors then report to each taxing district within five days the amount of taxes imposed.

Tax collections are now segregated into two pools, one for public schools and one for local governments, and each taxing body shares in its pool on the basis of its tax rate (adjusted as needed with tax limitation rate caps), regardless of the actual collection experience within each taxing body. Therefore, in application, the amount for each taxing body becomes a pro rata share of the total tax collection record of all taxing bodies within the county. Thus, an overall collection rate of 90% of the county-wide levy indicates a 90% tax levy collection for each taxing body.

Taxes are levied and become a lien on July 1 and tax payments are due November 15 of the same calendar year. Under the partial payment schedule the first third of taxes are due November 15, the second third on February 15 and the remaining third on May 15. Discounts are allowed where partial or full prepayment of taxes is made, as follows: (a) a property owner who pays at least two-thirds of the taxes due, but less than the total, on or before November 15 will receive a two percent discount of such taxes paid on or before November 15; or (b) a property owner who pays the total taxes due, on or before November 15, will receive a three percent discount of total taxes due.

For late payments, interest accrues after each payment due date at the rate of sixteen percent (16%) per year. Detailed statutes cover the method of giving notice of taxes due, the County Treasurer's account for the money collected, the division of the taxes among the various taxing districts, notices of delinquency, and collection procedures. The lien for property taxes is prior to all other liens or encumbrances of any kind on real or personal property subject to taxation. By law, a county may not commence foreclosure of a tax lien on real property until three years have passed since the first delinquency.

A Senior Citizen Property Tax Deferral Program allows homeowners to defer taxes until death or sale of the home. New applicants must be at least 62 years old and have a household income under \$32,500. Participants may continue as long as their adjusted gross income does not exceed \$32,500. Taxes are paid by the State, which obtains a lien on the property and accrues six- percent simple interest per year.

## STRATEGIC INVESTMENTS PROGRAM

The Strategic Investment Program ("SIP") was authorized by the Oregon Legislature in 1993 to provide tax incentives for capital intensive investments by firms in Oregon's key industries, particularly in the high technology and metals industries. SIP recipients receive a tax break on the assessed value of new construction over \$100 million for 15 years. The \$100 million cap on assessed value increases by 3 percent per year. SIP recipients pay an annual Community Service Fee which is equal to one-fourth of the value of the tax break and which is allocated to local governments. The Community Service Fee is not considered a property tax and thus is outside of the constitutional property tax rate limitations. There are no SIP recipients in the City.

**TABLE – City of Lake Oswego - Assessed Value and Estimated Real Market Value<sup>1</sup>**

Fiscal year	Assessed value – Real property	Assessed value – Personal property	Assessed value – Public Utility	Assessed value - Total	Total direct tax rate	Estimated real market value (RMV)	Assessed value as a percentage of RMV
2001	\$3,431,357,950	\$84,658,415	\$59,372,209	\$3,575,388,574	\$5.4535	\$4,691,116,668	76.2%
2002	3,674,400,559	89,277,844	64,304,914	3,827,983,317	5.4641	5,095,554,355	75.1
2003	3,859,058,979	89,336,610	67,155,851	4,015,551,440	5.8293	5,303,758,907	75.7
2004	4,011,395,332	82,195,706	69,809,322	4,163,400,360	6.0573	5,652,069,391	73.7
2005	4,181,274,462	85,442,034	75,885,019	4,342,601,515	6.2115	6,038,917,753	71.9
2006	4,360,051,208	87,775,231	65,797,150	4,513,623,589	6.1658	6,847,588,629	65.9

Sources: Clackamas, Multnomah and Washington County Assessor's Offices.

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**TABLE – City of Lake Oswego – Property Tax Levies and Collections**

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<b>Fiscal Year</b>	<b>Taxes levied for the fiscal year</b>	<b>Amount Collected w/in fiscal year of levy</b>	<b>Percent of Levy</b>	<b>Collections in subsequent years</b>	<b>Total Collections</b>	<b>Total Collections Percent of Levy</b>
2001	\$ 20,330,222	\$ 19,033,203	94%	\$ 742,206	\$19,775,409	97%
2002	21,895,955	20,480,001	94%	741,174	21,221,175	97%
2003	23,337,918	21,916,180	94%	929,088	22,845,268	98%
2004	25,095,597	23,680,518	94%	860,394	24,540,912	98%
2005	26,794,938	25,368,373	95%	665,984	26,034,357	97%
2006	27,658,109	26,338,108	95%	659,393	26,997,501	98%

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Source: Annual financial statements and internal accounting reports of the City of Lake Oswego.

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**TABLE – City of Lake Oswego Top 10 Property Taxpayers**

Name	2006 Assessed Value	Rank	Percent of Total Value
Prime Property Capital, Inc	\$32,470,294	1	0.72%
Spieker Properties	\$28,716,895	2	0.64%
Property Reserve Inc.	27,587,914	3	0.61%
Gramor Development	21,893,746	4	0.49%
GSL Properties Inc.	21,826,417	5	0.48%
Trinity Property Consultants	19,473,357	6	0.43%
Equity Property Tax Group	18,130,572	7	0.40%
Portland General Electric	17,570,000	8	0.39%
Qwest Corporation	17,560,900	9	0.39%
OR-Meadows 6000 LLC	17,064,704	10	0.38%
Total	\$222,294,799		4.92%

Note: The City is located primarily in Clackamas County and the table presents major taxpayers in Clackamas County.

Source: Clackamas County Assessor's Office.

**TABLE – City of Lake Oswego Property Tax Rates – Direct and Overlapping Governments**

*Rate per \$1,000 of assessed value*

Fiscal Year	Basic rate <sup>1</sup>	GO debt service	Urban renewal <sup>2</sup>	Total direct	Clackamas county	Education service district	Portland community college	Lake Oswego sch.dist.	Metro	Other <sup>3</sup>	Total direct and overlapping
1997	3.7274	0.4251	0.3872	4.5397	2.04	0.67	0.71	10.51	0.28	0.25	19.00
1998	5.0451	0.7026	0.1945	5.9422	2.59	0.37	0.37	5.66	0.39	0.28	15.60
1999	5.0353	0.7864	0.2036	6.0253	2.59	0.37	0.35	5.61	0.36	0.28	15.59
2000	5.0353	0.7912	--	5.8265	2.54	0.37	0.36	5.51	0.33	0.26	15.20
2001	4.7034	0.7501	--	5.4535	2.57	0.37	0.37	6.08	0.34	0.26	15.44
2002	4.7034	0.7607	--	5.4641	2.57	0.37	0.55	7.02	0.33	0.26	16.56
2003	4.6636	0.7397	0.4260	5.8293	2.49	0.35	0.48	6.72	0.27	0.24	16.38
2004	4.7480	0.8668	0.4425	6.0573	2.49	0.35	0.50	6.71	0.27	0.22	16.60
2005	4.8116	0.8689	0.5310	6.2115	2.48	0.35	0.49	6.88	0.27	0.22	16.90
2006	4.8076	0.8084	0.5498	6.1658	2.48	0.35	0.48	7.08	0.27	0.24	17.07

1. The City's basic rate was applied against RMV through 1997. From 1998 forward, the rates are applied against AV. Starting in 2003, urban renewal rates are separately stated, so the City's basic rate is discounted back for the effect of the separately stated urban renewal rates.

2. The City's urban renewal agency had a special levy which expired in 1988. Also, starting with 2003, the urban renewal rates are separately stated.

3. Includes Port of Portland, Tri-Met, Lake Grove Park, and Vector Control taxing districts.

Source: City of Lake Oswego.

## **ECONOMIC AND DEMOGRAPHIC INFORMATION**

The City of Lake Oswego (the "City") is located south of the Portland metropolitan area, in northwestern Oregon. It is located in Clackamas, Multnomah and Washington counties, with the majority of the City located in Clackamas County. These counties are a part of five counties that comprise the Portland-Vancouver Primary Metropolitan Statistical Area (the "PMSA"). The City's economy is linked with that of the metropolitan area, which is based on manufacturing, national and international trade, and the service industries.

Clackamas County is one of four counties that make up the Portland Metropolitan Statistical Area. Clackamas County's economic base was traditionally centered in agriculture and timber. The County still contains agricultural land. Manufacturing and technology have grown, with the lumber business declining.

Lake Oswego is located on the west side of Clackamas County. It is adjacent to the southern boundary of the City of Portland and abuts the western shore of the Willamette River. The downtown area is adjacent to the river, about eight miles south of downtown Portland. Access to downtown Portland is by Highway 43, which parallels the river, and I-5 for commuters on the west end.

Lake Oswego is primarily a residential community with a low ratio of heavy industry and retail-based commercial activity, although there is a growing office corridor along Kruse Way. The City is the largest city in Clackamas County. According to the US Census, the median household income in 2000 was \$71,597.

### **LAND USE PLANNING**

Oregon law requires that comprehensive land use planning be done at the city and county levels. To provide common direction and consistency within each city and county comprehensive plan, Oregon law directs the Department of Land Conservation and Development (DLCD) to adopt statewide planning goals and guidelines. All zoning and development within a city or county must conform to the comprehensive plan for that area.

Metro has the authority to expand the urban growth boundary when it can demonstrate the need for more urban land. Metro's Region 2040 growth management program began in 1991 to explore how the metropolitan region might accommodate expected growth over the next 50 years and to link land-use and transportation planning. In December 1995, the Metro Council adopted the Region 2040 Growth Concept, which encourages compact development near existing and future transit to reduce land consumption and the need to convert rural land to urban uses, preserves existing neighborhoods, identifies "rural reserve areas" as areas not subject to urban growth boundary expansion that serve as separation between urban areas, sets goals for providing permanent open space areas inside the urban growth boundary, and recognizes that cities on the boundary will grow and that cooperation is necessary to address common issues.

The Metro charter adopted a more detailed plan, the 2040 Framework, in December 1997. The 2040 Framework specifies how the region and local communities are to implement the 2040 Growth Concept and to provide performance measurements for local governments to meet. The 2040 Framework complies with state and regional planning goals. In December 2002, Metro adopted a package of ordinances that expands the urban growth boundary by 18,700 acres.

The City of Lake Oswego developed its first Comprehensive Plan over a four-year period from 1974 to 1978. In 1984 the plan was acknowledged by the LCDC. In December 1992 the City appointed the Lake Oswego Comprehensive Plan Review Committee and directed it to review and update the plan. The revised plan, including transportation goals and policies, street classifications and a public facility plan for street improvements, was adopted by Council in December, 1994.

### **POPULATION**

The City's 2006 population, based on preliminary estimates, is 36,075. During the ten-year period from 1997 to 2006, the population in the City increased from 34,021 to 36,075. Clackamas County currently ranks third largest in population among all counties in the state behind its neighbors, Multnomah County to the north and Washington County to the west.

**TABLE – Population Estimates and Economic Statistics**

<b>Fiscal Year</b>	<b>Population</b>	<b>Personal income (in millions)</b>	<b>Per capita personal income</b>	<b>Unemployment rate</b>
1997	34,021	50,912	27,672	4.0
1998	34,077	54,106	28,851	4.2
1999	34,300	56,918	29,858	4.5
2000	35,278	62,190	32,190	4.1
2001	35,434	63,892	32,326	5.8
2002	35,580	64,755	32,167	7.7
2003	35,750	65,959	32,152	9.1
2004	35,759	69,853	33,875	7.0
2005	35,860	*	*	6.2
2006 <sup>1</sup>	36,075	*	*	5.3

\* unavailable

The Federal Census figures, as of April 1 of the stated year, are as follows:

	<b>1980</b>	<b>1990</b>	<b>2000</b>
City of Lake Oswego	22,630	30,576	35,278
Clackamas County	243,000	278,850	338,391
State of Oregon	2,639,915	2,842,321	3,421,399

1. Preliminary estimates.

Source: Under state law, the State Board of Higher Education must estimate annually the population of Oregon cities and counties so that shared revenues may be properly apportioned. The Center for Population Research and Census at Portland State University performs this statutory duty. The population estimates are calculated as of July 1 of each year but are not certified until the following January. Federal Census figures are published by the U.S. Bureau of Census. 2000 Census figures are based on the 2000 Census Redistricting Data.

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**TABLE – Major Employers in the City of Lake Oswego 2005**

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<b>Employer</b>	<b>Employees</b>	<b>Rank</b>
Lake Oswego School District	721	1
City of Lake Oswego	337	2
Waggener Edstrom, Inc.	308	3
Micro Systems Engineering, Inc.	285	4
Safeco Insurance	315	5
Pacificare of Oregon	278	6
Gage Industries, Inc.	250	7
Otak, Inc.	250	8
Guidance Medical Personnel	250	9
Meritage Mortgage Corporation	232	10

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Source: Lake Oswego Chamber of Commerce and Clackamas County

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**TABLE – Major Employers in the Portland PMSA**

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<b>Employer</b>	<b>Product or Service</b>	<b>2005 Employment</b>
State of Oregon	Government	21,200 <sup>1</sup>
U.S. Government	Government	18,400 <sup>1</sup>
Intel Corporation	Semiconductor integrated circuits	15,500
Providence Health System	Health care & health insurance	14,007
Safeway Inc.	Grocery chain	13,453
Oregon Health & Science University	Health care & education	11,400
Fred Meyer Stores	Grocery & retail variety chain	9,663
Legacy Health System	Nonprofit health care	7,900
Kaiser Foundation Health Plan of the NW OR & SW Wash.	Healthcare	7,900
Portland Public School District	Education	6,759 <sup>1</sup>
NIKE Inc.	Sports shoes and apparel	6,100
Portland State University	Education	6,000 <sup>1</sup>
City of Portland	Government	5,566 <sup>1</sup>
Multnomah County	Government	4,789
Portland Community College	Education	4,396 <sup>1</sup>
Wells Fargo	Bank	4,285

1. Totals may include part-time, seasonal and temporary employees.

Source: Portland Metropolitan Fact Book – 2006 published by Portland Oregon Visitor's Association, Oregon Employment Department and Regional Financial Advisors.

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## TRANSPORTATION

Interstate Highway 5, the principal north-south highway on the West Coast, passes west of the City. Major passenger and cargo airlines operate out of the Portland International Airport, approximately sixteen miles from the City. A general aviation airport located in Hillsboro provides private and chartered air service approximately 25 miles from the City. The City is home to the Willamette Shore Trolley that runs seven miles from the City's downtown to Riverplace in downtown Portland. The Willamette Pacific Railroad line also runs through the City.

Transportation is facilitated by a highway system that includes Interstate 5, the primary north-south highway artery of the West Coast, and by-pass routes I-205 and I-405 within and around the Portland metropolitan area. The primary east-west highway

system is Interstate 84, which begins at Portland and heads east along the Columbia River to Idaho and beyond. The Portland metropolitan area is also served by U.S. highways 26 and 30, Oregon highways 43, 213, 217, 224, 99E, 99W, the Tualatin Valley Highway, the historic Columbia River Highway, nine bridges across the Willamette River and two bridges across the Columbia River.

The Tri-County Metropolitan Transportation District of Oregon ("Tri-Met"), the regional public transit agency, provides bus service throughout the region and light rail service ("MAX") between downtown Portland and Gresham to the east and out to the west to the cities of Beaverton and Hillsboro.

## **UTILITIES**

NW Natural supplies natural gas to the area; electricity is provided by Portland General Electric Company. General Telephone Company of the Northwest, Inc. (GTE Northwest), and Qwest Communications provide telephone service. Rossman Sanitary Service provides garbage collection services.

The City owns and operates its own water system, drawing its water from the Clackamas River at an intake in Gladstone, and treating it at a treatment plant located in West Linn. The City contracts to supply water to the City of Tigard, and to supply either emergency, or emergency and domestic water, to four other water districts.

The City owns, operates and maintains its own sewage collection system within the urban service boundary, except for a trunk interceptor facility owned and operated by the Unified Sewerage Agency of Washington County. Sewage treatment is provided by the Tryon Creek Wastewater Treatment Plant, owned and operated by the City of Portland. The City contracts to provide sewer service to some areas of Tualatin.

## **EDUCATION**

The Lake Oswego School District serves the City's education needs. City residents also have access to a variety of private educational institutions in the Portland-Vancouver PMSA, including Our Lady of the Lake for grades K-8, within the City.

Marylhurst University, a four-year private liberal arts college with graduate and undergraduate students, is located within the City. The college provides lifelong learning for students of all ages and offers 16 bachelors' degrees, 5 masters' degrees, and 13 professional certificates.

Clackamas Community College, located on the east side of the Willamette River, and Portland Community College, with a campus close to the northern boundary of the City, offers associate degrees in a variety of disciplines. Other institutions of higher education servicing the City's citizens include Pacific University in Forest Grove, and Portland State University, Reed College, Lewis and Clark College, the University of Portland, and the Oregon Health and Science University in Portland, as well as other public and private colleges located throughout the metropolitan area.

## **HEALTH CARE**

Legacy Meridian Park Hospital, located southwest of the City, serves the health care needs of the vicinity and southwest of the City, Kaiser Permanente operates a medical office complex. Other major health care facilities available to residents of the City include St. Vincent Medical Center near Beaverton and Tuality Community Hospital in Tualatin.

## **TOURISM AND RECREATION**

The City's Parks and Recreation Department manages City park property at 35 different sites. The City also owns and maintains a water sports center, a community amphitheater on the Willamette River, an adult community center, the Lake Oswego Swim Park, and an indoor tennis center; as well as a 39.2-acre municipal golf course. The City offers recreation programs, including aquatics, adult and youth fitness activities and classes, softball, basketball, golf and tennis programs.

The 405-acre private Oswego Lake and the Willamette River offer fishing, boating and water skiing opportunities. There is also a private golf course, the Oswego Lake Country Club. Ocean beaches lie about 90 minutes to the west of the City, and Mount Hood is about 90 minutes east.

The City is home to the Lakewood Center for the Arts which provides gallery space, classes, dramatic productions and is the home of the annual Festival of the Arts.

## THE INITIATIVE PROCESS

The Oregon Constitution, Article IV, Section 1, reserves to the people of the State the initiative power to amend the State constitution or to enact State legislation by placing measures on the statewide general election ballot for consideration by the voters. Oregon law therefore permits any registered Oregon voter to file a proposed initiative with the Oregon Secretary of State's office without payment of fees or other burdensome requirements. Consequently, a large number of initiative measures are submitted to the Oregon Secretary of State's office, and a much smaller number of petitions obtain sufficient signatures to be placed on the ballot.

Because many proposed initiative measures are submitted which do not qualify for the ballot, the City does not formally or systematically monitor the impact of those measures or estimate their financial effect prior to the time the measures qualify for the ballot. Consequently, the City does not ordinarily disclose information about proposed initiative measures that have not qualified for the ballot.

### PROPOSED INITIATIVES WHICH QUALIFY TO BE PLACED ON THE BALLOT

To be placed on a general election ballot, the proponents of a proposed initiative must submit to the Secretary of State initiative petitions signed by a number of qualified voters equal to a specified percentage of the total number of votes cast for all candidates for governor at the gubernatorial election at which a Governor was elected for a term of four years next preceding the filing of the petition with the Secretary of State. For the 2006 general election, the requirements were eight percent (100,840 signatures) for a constitutional amendment measure and six percent (75,630 signatures) for a statutory initiative. Any elector may sign an initiative petition for any measure on which the elector is entitled to vote.

The initiative petition must be submitted to the Secretary of State not less than four months prior to the general election at which the proposed measure is to be voted upon. As a practical matter, proponents of an initiative have approximately two years in which to gather the necessary number of signatures. State law permits persons circulating initiative petitions to pay money to persons obtaining signatures for the petition. If the person obtaining signatures is being paid, the signature sheet must contain a notice of such payment.

Once an initiative measure has gathered a sufficient number of signatures and qualified for placement on the ballot, the State is required to prepare a formal estimate of the measure's financial impact. Typically, this estimate is limited to an evaluation of the direct dollar impact only. Historically, a larger number of initiative measures have qualified to be placed on the ballot than have been approved by the electors. According to the Elections Division of the Oregon Secretary of State, the total number of initiative petitions that have qualified for the ballot and the numbers that have passed in recent general elections are shown in the following table.

For the November 2006 general election, a total of 10 initiatives have qualified to be placed on the ballot. Two of the pending initiatives, if enacted, could result in the State reducing transfers to the City. The likelihood of the passage of those initiatives and the potential impact on the City and its finances is unknown. The initiatives, however, would not affect the City's ability to levy taxes to pay the Bonds.

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**TABLE – Initiatives in Recent Oregon General Elections**

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Year of General Election	Number of Initiatives that Qualified	Number of Initiatives that Passed
1990	8	3
1992	7	0
1994	16	9
1996	16	4
1998	10	6
2000	18	4*
2002	7	3
2004	6	2
2006	10	To be Determined

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\* On October 4, 2002, the Oregon Supreme Court ruled that Measure 7 is unconstitutional, and it has not been included in the number of initiatives that passed in 2000.

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Sources: Elections Division, Oregon Secretary of State.

## **MEASURE 37 WHICH APPEARED ON THE NOVEMBER 2004 BALLOT**

Oregon voters approved citizen initiative petition Measure 37 on November 2, 2004. Measure 37 became effective on December 2, 2004.

Measure 37 adds several new statutory provisions to Oregon law. Measure 37 entitles certain landowners either (a) to compensation for the reduction in the fair market value of their property that results from certain land use regulations (the "Restrictions") that are enacted or enforced against the property; or, (b) to have their land released from the Restrictions. The government body that enacted or enforced the Restrictions decides whether to pay the claim or waive the Restrictions.

"Restrictions" do not include regulation of nuisances, regulations that protect public health and safety, regulations that are required to comply with federal law; regulations restricting or prohibiting the use of a property for the purpose of selling pornography or performing nude dancing, and regulations that were enacted before the current property owner (or a member of that owner's family) acquired the property.

If a land use regulation continues to apply to the subject property more than 180 days after the present owner of the property has made written demand for compensation, the present owner of the property has a cause of action for compensation in the circuit court and the owner is entitled to reasonable attorney fees, expenses, costs, and other disbursements. If claims are not paid within two years after they accrue, Measure 37 releases the land from the Restrictions and it is not clear whether the governments imposing the Restrictions have any residual liability.

The City has enacted Restrictions, and to date has not received any claims. The Marion County Circuit Court ruled that Measure 37 was unconstitutional in October of 2005. In February of 2006 the Oregon Supreme Court overturned the Marion County Circuit Court ruling and upheld Measure 37. Many questions exist about the meaning of Measure 37 and the effect of its provisions. The Oregon Legislature has not adopted legislation resolving these questions, and no significant judicial precedents are available that construe its meaning. Therefore City cannot predict how it will be affected.

## TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Bonds is exempt from State of Oregon personal income taxes. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix B hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and State of Oregon personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The City has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel’s attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

Certain requirements and procedures contained or referred to in the Resolution, the Tax Certificate, and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of Oregon personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Beneficial Owner’s federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner’s other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislation, if enacted into law, or clarification of the Code may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.



The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the City, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the City or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the City and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the City legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the City or the Beneficial Owners to incur significant expense.

The City has designated the Bonds as a qualified tax-exempt obligation for banks, thrift institutions and other financial institutions so that such financial institutions will not be denied a deduction of 100 percent of their interest expenses allocable to the Bonds. However, corporate tax preference rules reduce by 20 percent the amount that may be deducted by such financial institutions for interest on funds allocable to tax-exempt obligations such as the Bonds.

## **LEGAL MATTERS**

Orrick, Herrington & Sutcliffe, LLP, Portland, Oregon, Bond Counsel for the City, will render an opinion with respect to the validity of and tax exemption on the Bonds. Copies of such opinion of Bond Counsel are included as Appendix B of this Official Statement. Bond Counsel undertakes no responsibility for the accuracy, completeness, or fairness of this Official Statement.

## **LITIGATION**

There is no litigation pending or threatened against the City that would affect the validity of the Bonds.

## **UNDERWRITING**

The Bonds are being purchased by Wells Fargo Brokerage Services, LLC, Salt Lake City, UT, (the "Underwriter"). The Purchase Agreement provides that the Underwriter will purchase all of the Bonds, subject to certain conditions, at an aggregate price of \$6,633,815.45 (101.434%), consisting of a principal amount of \$6,540,000.00 plus reoffering premium of \$129,785.45 less an underwriter's discount of \$35,970.00. After the initial public offering, the public offering prices may be varied from time to time.

## **RATING**

Moody's Investors Service ("Moody's") and Standard & Poor's, a Division of the McGraw-Hill Companies ("Standard & Poor's") have assigned underlying ratings of "Aaa" and "AAA" to the Bonds, respectively. An explanation of the significance of the ratings can be obtained from the rating agencies. There are no assurances that the ratings will continue for any given period of time or that the ratings will not be revised downward or withdrawn entirely by the rating agencies if, in the judgment of the rating agencies, circumstances so warrant. Any such downward revision or withdrawal of the ratings may adversely affect the market price of the Bonds.

## **CONTINUING DISCLOSURE**

Pursuant to SEC Rule 15c2-12, as amended (17 CFR Part 240, § 240.15c2-12) (the "Rule"), the City, as the "obligated person" within the meaning of the Rule, has agreed to execute and deliver a Continuing Disclosure Certificate, substantially in the form attached hereto as Appendix C for the benefit of the Bondholders. The City previously has executed and delivered Continuing Disclosure Certificates with respect to debt issues for which the City is the "obligated person" as defined in the Rule and has not failed to comply with any prior such Continuing Disclosure Certificates.

## MISCELLANEOUS

All quotations from and summaries and explanations of provisions of law herein do not purport to be complete and reference is made to said laws for full and complete statements of their provisions.

This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or holders of any of the Bonds. Any statements made in this Official Statement involving matters of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City, since the date hereof.

## CONCLUDING STATEMENT

The Official Statement was prepared by Wells Fargo Brokerage Services, LLC, on behalf of the City. The undersigned certifies that to the best of his knowledge and belief, (i) the Official Statement, both as of its date and as of the date of delivery of the Bonds, does not contain any untrue statement of a material fact or omit any statement of a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading and (ii) between the date of the Official Statement and the date of delivery of the Bonds there has been no material adverse change in the affairs (financial or other), financial condition or result of operations of the City except as set forth in the Official Statement or an amendment thereto.

### CITY OF LAKE OSWEGO

By:     /s/ Richard W. Seals      
    City Finance Director

**APPENDIX A  
COMBINED FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2005**

**APPENDIX B  
FORM OF  
BOND COUNSEL OPINION**

**APPENDIX C  
FORM OF CONTINUING  
DISCLOSURE CERTIFICATE**

**APPENDIX D**  
**BOOK ENTRY ONLY SYSTEM**

