

**SUPPLEMENT DATED APRIL 10, 2013 TO
OFFICIAL STATEMENT DATED APRIL 3, 2013**

**\$221,715,000
STATE OF OREGON
DEPARTMENT OF ADMINISTRATIVE SERVICES
OREGON STATE LOTTERY REVENUE BONDS**

\$122,500,000	\$28,140,000	\$71,075,000
2013 Series A	2013 Series B	2013 Series C
(Tax-Exempt)	(Federally Taxable)	(Federally Taxable Refunding)

This Supplement dated April 10, 2013 (the “Supplement”) amends and supplements the Official Statement dated April 3, 2013 (the “Original Official Statement”) relating to the above-referenced bonds and constitutes an integral part of the Original Official Statement. Together this Supplement and the Original Official Statement constitute the “Official Statement.” All capitalized terms used and not otherwise defined herein have the meanings set forth in the Original Official Statement.

The last sentence of the fourth paragraph under the section “THE OREGON GAMING MARKET—General” is replaced in its entirety to describe the increase in spending for the period of 2010 to 2011 consistent with the context of the sentence and the preceding sentence, instead of describing spending for the period of 2009 to 2011, as follows :

Spending on Oregon Lottery games in-state by both residents and non-residents rose 2.4 percent over the same period in part because of increased gaming visits along the Washington border.

OFFICIAL STATEMENT DATED APRIL 3, 2013

This Official Statement has been prepared on behalf of the State of Oregon, acting by and through the Office of the Oregon State Treasurer and the Oregon Department of Administrative Services, to provide information on the 2013 Bonds. Selected information presented on this cover page is for the convenience of the users. To make an informed decision regarding the 2013 Bonds, a prospective investor should read this Official Statement in its entirety. Unless otherwise indicated, capitalized terms used on this cover page have the meanings given in this Official Statement.

NEW ISSUES – NEGOTIATED
BOOK-ENTRY ONLY

RATINGS: See “Ratings”

\$221,715,000

STATE OF OREGON

**DEPARTMENT OF ADMINISTRATIVE SERVICES
OREGON STATE LOTTERY REVENUE BONDS**

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2013 Series A
(Tax-Exempt)

\$28,140,000
2013 Series B
(Federally Taxable)

\$71,075,000
2013 Series C
**(Federally Taxable
Refunding)**

Dated: Date of Delivery

Due: As shown on inside cover page

Tax Status	In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel (“Bond Counsel”) to the State of Oregon (the “State”), under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2013 Series A Bonds (the “2013 Series A Bonds” or the “2013 Tax-Exempt Bonds”) is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) interest on the 2013 Tax-Exempt Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In the opinion of Bond Counsel, interest on the 2013 Series B Bonds and the 2013 Series C Bonds (together, the “2013 Taxable Bonds”) is not excludable from gross income for federal income tax purposes. In the opinion of Bond Counsel, interest on all of the 2013 Tax-Exempt Bonds and the 2013 Taxable Bonds (together, the “2013 Bonds”) is exempt from Oregon personal income tax under existing law. See “TAX MATTERS” herein for a discussion of the opinion of Bond Counsel.
Security	The 2013 Bonds are special obligations of the State payable solely from and having an equal and ratable (<i>pari passu</i>) pledge of and lien upon Unobligated Net Lottery Proceeds (as defined herein), amounts credited to the Bond Fund and any funds made available for the specific purpose of replenishing the applicable Reserve Subaccount by a specific appropriation by the State pursuant to its moral obligation described herein. The 2013 Bonds are secured by the Prior Bonds Reserve Subaccount. See “SOURCES OF PAYMENT AND SECURITY—Reserve Account and State Moral Obligation.”
Interest Payment Dates	Interest on the 2013 Bonds is payable semiannually on each April 1 and October 1, commencing October 1, 2013, until maturity or the redemption prior to maturity or maturities thereof.
Denominations	\$5,000 and any integral multiple thereof.
Redemption	The 2013 Bonds are subject to optional and mandatory redemption as described herein. See “REDEMPTION OF THE 2013 BONDS.”
Closing/Settlement	The 2013 Bonds are expected to be available for delivery through the facilities of The Depository Trust Company in New York, New York on or about April 16, 2013.
Legal Counsel	Hawkins Delafield & Wood LLP, Portland, Oregon, Bond Counsel to the State; Oregon Department of Justice, Salem, Oregon, Counsel to the State and the Department of Administrative Services; and Orrick, Herrington & Sutcliffe LLP, Portland, Oregon, Counsel to the Underwriters.
Paying Agent	The Bank of New York Mellon, as the State of Oregon’s Fiscal Agent.
Trustee	Wells Fargo Bank, National Association.

Citigroup

Goldman, Sachs & Co.

BofA Merrill Lynch

Fidelity Capital Markets

J.P. Morgan

Morgan Stanley

Piper Jaffray & Co.

**STATE OF OREGON
DEPARTMENT OF ADMINISTRATIVE SERVICES
OREGON STATE LOTTERY REVENUE BONDS**

**\$122,500,000
2013 Series A
(Tax-Exempt)**

Maturity Date (April 1)	Principal Amount	Interest Rate	Yield	CUSIP No.** 68607V
2020	\$ 435,000	3.000%	1.420%	B95
2020	1,555,000	5.000	1.420	D77
2021	1,470,000	4.000	1.670	C29
2021	5,380,000	5.000	1.670	D85
2022	825,000	4.000	1.880	C37
2022	6,355,000	5.000	1.880	D93
2023	7,530,000	5.000	2.090	C45
2024	7,905,000	5.000	2.240*	C52
2025	8,300,000	5.000	2.410*	C60
2026	8,715,000	5.000	2.560*	C78
2027	9,150,000	5.000	2.690*	C86
2028	435,000	3.125	3.125	C94
2028	9,175,000	5.000	2.780*	E27
2029	10,080,000	4.000	3.040*	D28
2030	10,485,000	5.000	2.920*	D36
2031	11,010,000	5.000	2.970*	D44
2032	11,560,000	5.000	3.020*	D51
2033	6,590,000	3.500	3.500	D69
2033	5,545,000	5.000	3.060*	E35

**\$28,140,000
2013 Series B
(Federally Taxable)**

Maturity Date (April 1)	Principal Amount	Interest Rate	Yield	CUSIP No.** 68607V
2014	\$ 755,000	0.350%	0.350%	ZW8
2015	755,000	0.480	0.480	ZX6
2016	2,500,000	0.782	0.782	ZY4
2017	6,410,000	1.073	1.073	ZZ1
2018	6,475,000	1.353	1.353	A21
2019	6,565,000	1.640	1.640	A39
2020	4,680,000	1.890	1.890	A47

* Priced to the call date of April 1, 2023.

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**STATE OF OREGON
DEPARTMENT OF ADMINISTRATIVE SERVICES
OREGON STATE LOTTERY REVENUE BONDS**

**\$71,075,000
2013 Series C
(Federally Taxable Refunding)**

Maturity Date (April 1)	Principal Amount	Interest Rate	Yield	CUSIP No.** 68607V
2014	\$ 6,615,000	0.240%	0.240%	A54
2015	17,120,000	0.480	0.480	A62
2016	13,650,000	0.782	0.782	A70
2017	10,055,000	1.073	1.073	A88
2018	10,165,000	1.353	1.353	A96
2019	1,805,000	1.640	1.640	B20
2020	1,840,000	1.890	1.890	B38
2021	1,875,000	2.100	2.100	B46
2022	1,915,000	2.400	2.400	B53
2023	1,960,000	2.600	2.600	B61
2024	2,010,000	2.750	2.750	B87
2025	2,065,000	2.900	2.900	B79

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No dealer, broker, salesperson or other person is authorized by the State, the Underwriters or the Trustee to give any information or to make any representation other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

No website mentioned in this Official Statement is part of this Official Statement, and readers should not rely upon any information presented on any such website in determining to purchase the 2013 Bonds. Any reference to any website mentioned in this Official Statement is not a hyperlink and does not incorporate such website by reference.

In connection with this offering, the Underwriters may over allot or effect transactions that stabilize or maintain the market price of the 2013 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The public offering prices or yields set forth on the inside front cover page hereof may be changed from time to time by the Underwriters. The Underwriters may offer and sell the 2013 Bonds to certain dealers, unit investment trusts or money market funds at prices lower than the public offering prices stated on the inside cover page hereof.

Certain statements contained in this Official Statement do not reflect historical facts but are forecasts and “forward-looking statements.” No assurance is given that any future results discussed herein will be achieved, and actual results may differ materially from any forecasts. In this respect, the words “estimate,” “project,” “forecast,” “anticipate,” “expect,” “intend,” “believe” and similar expressions identify forward-looking statements. All projections, forecasts, assumptions, expressions of opinion and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement.

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DEPARTMENT OF ADMINISTRATIVE SERVICES
OREGON STATE LOTTERY REVENUE BONDS**

**\$122,500,000
2013 Series A
(Tax-Exempt)**

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Refunding)**

INTRODUCTION

General

This Official Statement, including the cover page, inside cover page and appendices, sets forth information concerning the State of Oregon (the “State”), the Oregon Department of Administrative Services (the “Department” or “DAS”) and the Oregon State Lottery (the “Lottery”) and is delivered in connection with the issuance by the State of its State of Oregon Department of Administrative Services Oregon State Lottery Revenue Bonds, 2013 Series A (Tax-Exempt) (the “2013 Series A Bonds” or the “2013 Tax-Exempt Bonds”), its State of Oregon Department of Administrative Services Oregon State Lottery Revenue Bonds, 2013 Series B (Federally Taxable) (the “2013 Series B Bonds”) and its State of Oregon Department of Administrative Services Oregon State Lottery Revenue Bonds, 2013 Series C (Federally Taxable Refunding) (the “2013 Series C Bonds” and together with the 2013 Series B Bonds, the “2013 Taxable Bonds”). Together, the 2013 Tax-Exempt Bonds and the 2013 Taxable Bonds are referred to herein as the “2013 Bonds.”

The Lottery Revenue Bonds (as defined below), including the 2013 Bonds, are issued pursuant to Oregon Revised Statutes (“ORS”) Sections 286A.560 to 286A.585, inclusive, and any supplemental or amending legislation (collectively, the “Act”) and Article XV, Section 4 of the Oregon Constitution. See “AUTHORIZATION.”

The 2013 Bonds are also being issued under the Third Restated Master Indenture of Trust, dated February 8, 2007 (the “Third Restated Master Indenture”), between the State, acting by and through its State Treasurer and the Department, and Wells Fargo Bank, National Association (as successor to Norwest Bank Minnesota, National Association), as trustee (the “Trustee”), and the Twenty-Fifth Supplemental Indenture of Trust, to be dated the date the 2013 Bonds are issued and delivered (the “Twenty-Fifth Supplemental Indenture”), between the State and the Trustee. The Third Restated Master Indenture as supplemented and amended from time to time, including as supplemented by the Twenty-Fifth Supplemental Indenture, is referred to in this Official Statement as the “Master Indenture.”

The Master Indenture includes requirements for amendments with and without consents of the Owners. In the Twenty-Fifth Supplemental Indenture, the State has reserved the right to amend the Master Indenture and any Supplemental Indenture, to provide for certain matters as described herein and in Appendix C. **By purchase and acceptance of the 2013 Bonds, the Owners of the 2013 Bonds will be deemed to have irrevocably consented to the amendments to the Master Indenture as described herein and in Appendix C.** See “CERTAIN PROVISIONS OF THE MASTER INDENTURE—Proposed Amendments—General Amendments” and APPENDIX C—“SUMMARY OF THE MASTER INDENTURE—Proposed Amendments.”

The State has previously issued 38 series of its Oregon State Lottery Revenue Bonds under the Third Restated Master Indenture. As of March 1, 2013, approximately \$1.13 billion aggregate principal amount of such bonds remain outstanding (collectively, the “Outstanding Lottery Bonds”). In the future,

the State may issue Additional Bonds (as defined herein) on parity with the Outstanding Lottery Bonds and the 2013 Bonds, upon satisfaction of the conditions set forth in the Master Indenture. The Outstanding Lottery Bonds, the 2013 Bonds and any future Additional Bonds are referred to in this Official Statement and in the Master Indenture as the “Lottery Revenue Bonds.” See “FINANCIAL OPERATIONS OF THE OREGON STATE LOTTERY—Annual Debt Service on the Lottery Revenue Bonds,” “SOURCES OF PAYMENT AND SECURITY—Additional Bonds” below and “SUMMARY OF THE MASTER INDENTURE—Definitions—Bonds” in Appendix C.

All references in this Official Statement to and summaries of statutes, documents and proceedings are qualified in their entirety by reference to the originals thereof. Capitalized terms used herein and not defined have the meanings ascribed to them in the Master Indenture. Some of these definitions are listed in the “SUMMARY OF THE MASTER INDENTURE” in Appendix C.

Purpose

The 2013 Series A Bonds are being issued to (i) make loans or grants for, or to pay, a portion of the costs of the Tax-Exempt Projects, described below; and (ii) pay costs of issuing the 2013 Series A Bonds. See “THE 2013 BONDS PROJECTS” and “ESTIMATED SOURCES AND USES OF 2013 BOND PROCEEDS.”

The 2013 Series B Bonds (together with the 2013 Series A Bonds, the “2013 New Money Bonds”) are being issued to (i) make loans or grants for, or to pay, a portion of the costs of the Taxable Projects, described below; and (ii) pay costs of issuing the 2013 Series B Bonds. See “THE 2013 BONDS PROJECTS” and “ESTIMATED SOURCES AND USES OF 2013 BOND PROCEEDS.”

The Series C Bonds are being issued to (i) refund certain of the State’s Outstanding Lottery Bonds and (ii) pay costs of issuing the 2013 Series C Bonds. The Series C Bonds are also referred to herein as the “2013 Refunding Bonds.” See “PLAN OF REFUNDING” and “ESTIMATED SOURCES AND USES OF 2013 BOND PROCEEDS.”

Security for the 2013 Bonds

Pursuant to the Act, the Lottery Revenue Bonds, including the 2013 Bonds, are special obligations of the State of Oregon that are payable solely from Unobligated Net Lottery Proceeds, amounts available in any Lottery Revenue Bond funds and in the subaccount of the Reserve Account established to secure that Series of Lottery Revenue Bonds and any Appropriated Funds. Neither the full faith and credit nor the taxing power of the State of Oregon are pledged or committed to the payment of Lottery Revenue Bonds or any other commitment of the State authorized by the Act.

As defined in the Master Indenture, “Unobligated Net Lottery Proceeds” consist of all revenues derived from the operation of the Lottery, including any and all games or other activities which the Lottery may operate in the future, except for revenues used for the payment of prizes and expenses of the Lottery. See “SOURCES OF PAYMENT AND SECURITY—Allocations and Uses of Lottery Proceeds.”

“Appropriated Funds” for a particular fiscal year means any moneys, other than Unobligated Net Lottery Proceeds, specifically appropriated or otherwise specifically made available by the Oregon Legislative Assembly (the “Legislative Assembly”) or the Emergency Board for a fiscal year to replenish any reserves established as additional security for Lottery Revenue Bonds pursuant to the authority granted under Oregon law (as further defined below, the “Lottery Revenue Bond Reserves”). The Act requires the Director of the Department to notify the Governor and the Legislative Assembly or the

Emergency Board if Appropriated Funds are needed to replenish the Lottery Revenue Bond Reserves due to a draw on such Lottery Revenue Bond Reserves to pay debt service on the Lottery Revenue Bonds, but the State has no obligation to provide Appropriated Funds. This requirement in the Act for the State to consider providing Appropriated Funds to replenish the Lottery Revenue Bond Reserves is referred to in this Official Statement as the State’s “moral obligation.” See “SOURCES OF PAYMENT AND SECURITY.”

“Pledged Revenues” means the Unobligated Net Lottery Proceeds; all amounts in any funds or accounts held by the Trustee under the Master Indenture (except any amounts that may have been reserved for payment of rebates to the United States in connection with Lottery Revenue Bonds), including any Appropriated Funds deposited with the Trustee; all the State’s right, title and interest under any Credit Facility (including any money drawn or paid thereunder); and any amounts the State may subsequently pledge or commit to pay the Lottery Revenue Bonds.

THE LOTTERY REVENUE BONDS ARE SPECIAL OBLIGATIONS OF THE STATE. THE STATE IS NOT OBLIGATED TO PAY THE PRINCIPAL OF OR PREMIUM, IF ANY, OR INTEREST ON THE LOTTERY REVENUE BONDS FROM ANY SOURCE OTHER THAN THE PLEDGED REVENUES. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE IS PLEDGED TO PAYMENT OF PRINCIPAL OF OR PREMIUM, IF ANY, OR INTEREST ON THE LOTTERY REVENUE BONDS.

Reserve Account, Reserve Subaccounts and State Moral Obligation

The State Treasurer, on behalf of the State and pursuant to the authority granted by the Act, has covenanted in the Master Indenture that the State shall maintain a balance in each subaccount of the Reserve Account that is equal to the Reserve Requirement for that subaccount, but solely from the Pledged Revenues and any Appropriated Funds as provided in the Master Indenture. The Reserve Account contains separate subaccounts securing different Series of Lottery Revenue Bonds. Amounts in each subaccount of the Reserve Account may only be used to pay the Lottery Revenue Bonds that are secured by that subaccount. If the balance in a Reserve Subaccount falls below the Reserve Requirement for that Reserve Subaccount because of a draw to pay debt service on the Lottery Revenue Bonds or because of the loss in value of Investment Securities, the State is required to deposit into the Reserve Subaccount the first available Unobligated Net Lottery Proceeds until the balance is equal to the Reserve Requirement.

The State has further provided its moral obligation to provide Appropriated Funds as necessary, after a draw on the Reserve Account has been made, to maintain the balance in each subaccount of the Reserve Account at its Reserve Requirement. The State has not provided its moral obligation to make such deposits if the balance has been reduced because of an investment loss or because of the insolvency of a Reserve Credit Facility Provider or the provider of a guaranteed investment contract or similar instrument. See “SOURCES OF PAYMENT AND SECURITY—Reserve Account and State Moral Obligation” and “CERTAIN PROVISIONS OF THE MASTER INDENTURE.”

The State has reserved the right to amend the Master Indenture to, among other things, permit replenishing deficiencies in Reserve Subaccounts in certain circumstances. **By purchase and acceptance of the 2013 Bonds, the Owners of the 2013 Bonds will be deemed to have irrevocably consented to such amendments to the Master Indenture as described herein and in Appendix C.** See “CERTAIN PROVISIONS OF THE MASTER INDENTURE—Proposed Amendments—General Amendments” and APPENDIX C—“SUMMARY OF THE MASTER INDENTURE—Proposed Amendments.”

Upon issuance of the 2013 Bonds, the State expects the amount on deposit in the Prior Bonds Reserve Subaccount to be sufficient to satisfy the Reserve Requirement for all Series of Lottery Revenue Bonds that are secured by the Prior Bonds Reserve Subaccount, including the 2013 Bonds. See “SOURCES OF PAYMENT AND SECURITY—Reserve Account and State Moral Obligation—Prior Bonds Reserve Subaccount.”

Additional Bonds

The State may issue additional Lottery Revenue Bonds in accordance with the Act and the Master Indenture (“Additional Bonds”). Additional Bonds have a pledge of and lien on the Pledged Revenues that is on a parity with the lien of the pledge that secures all other Lottery Revenue Bonds issued under the Master Indenture. Other than with respect to refundings meeting certain criteria as described below, the issuance of Additional Bonds is subject to certain conditions set forth in the Master Indenture, among which is certification by the Department that both historical and projected Unobligated Net Lottery Proceeds demonstrate a coverage of four times (4.0x) the Maximum Annual Debt Service on all Outstanding Lottery Bonds (with the Additional Bonds treated as outstanding) for the periods required to be included in such certification. All of the 2013 Bonds are to be issued as Additional Bonds subject to the conditions set forth under the Master Indenture for issuance of Additional Bonds. See “SOURCES OF PAYMENT AND SECURITY—Additional Bonds” and APPENDIX C—“SUMMARY OF THE MASTER INDENTURE—Definitions—Maximum Annual Debt Service” and “—Additional Bonds.”

Additional Bonds may be issued to refund Outstanding Lottery Revenue Bonds without meeting the requirements described above, provided the debt service on the refunding Additional Bonds does not exceed the debt service on Outstanding Lottery Bonds to be refunded by more than \$5,000 in any fiscal year. See “SOURCES OF PAYMENT AND SECURITY—Additional Bonds” and APPENDIX C—“SUMMARY OF THE MASTER INDENTURE—Additional Bonds—Refunding Bonds.”

AUTHORIZATION

General Lottery Revenue Bond Authorization

Pursuant to Article XV, Section 4 of the Oregon Constitution and the Act, the State is authorized to issue lottery revenue bonds, including the 2013 Bonds.

2011-13 Biennium Authority

State law requires the Legislative Assembly to establish the amount of Lottery Revenue Bonds that may be issued during each two-year budget period (a “biennium”) for purposes other than refunding. There is no limit on the amount of Lottery Revenue Bonds that may be issued for refunding purposes. The total amount of Lottery Revenue Bonds authorized for the 2011-13 biennium by the Legislative Assembly was \$233,330,000. The State has issued \$21,605,000 of Lottery Revenue Bonds for new money projects in the 2011-13 biennium, not including the 2013 New Money Bonds. The 2013 Refunding Bonds, which are being issued to refund certain of the State’s Outstanding Lottery Bonds, do not count against the 2011-13 biennial bond authorization. See “THE 2013 BONDS PROJECTS” and “ESTIMATED SOURCES AND USES OF 2013 BOND PROCEEDS.”

Master Indenture

The 2013 Bonds are being issued as Additional Bonds under the Master Indenture. See “SOURCES OF PAYMENT AND SECURITY—Additional Bonds” and APPENDIX C—“SUMMARY OF THE MASTER INDENTURE—Additional Bonds.”

DESCRIPTION OF THE 2013 BONDS

General

When issued, the 2013 Bonds will be dated their date of delivery and will bear interest at the rates per annum and will mature, subject to redemption prior to maturity, on the dates and in the principal amounts set forth on the inside cover page of this Official Statement. Interest on the 2013 Bonds, calculated on the basis of a 360-day year comprising twelve 30-day months, will be payable on April 1 and October 1 of each year, commencing October 1, 2013. The 2013 Bonds are issuable in fully registered form and in denominations of \$5,000 and integral multiples thereof, without coupons.

When issued, the 2013 Bonds will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company (“DTC”). DTC is to act as securities depository for the 2013 Bonds. Individual purchases may be made only in book-entry form. Purchasers will not receive certificates representing their interests in the 2013 Bonds purchased. Except as provided in the Master Indenture, so long as Cede & Co. (or such other name as may be requested by an authorized representative of DTC) is the registered owner of the 2013 Bonds as nominee of DTC, references in this Official Statement (other than under the heading “TAX MATTERS”) to “Owners,” “Bondholders” or “Registered Owners” mean Cede & Co. or DTC and not the Beneficial Owners of the 2013 Bonds. In this Official Statement, the term “Beneficial Owner” means the person for whom its DTC participant acquires an interest in the 2013 Bonds. See Appendix F for a description of DTC and its book-entry system.

REDEMPTION OF THE 2013 BONDS

Redemption of 2013 Tax-Exempt Bonds

Optional Redemption.

The 2013 Series A Bonds maturing on or after April 1, 2024 are subject to redemption prior to maturity at the option of the State, in whole or in part at any time on or after April 1, 2023 (with the maturities to be selected by the State and by lot within a maturity) at a redemption price equal to 100 percent of the principal amount thereof, plus accrued but unpaid interest to the date fixed for redemption.

Redemption of 2013 Taxable Bonds

Optional Redemption.

The 2013 Series B Bonds are subject only to Make-Whole Optional Redemption.

The 2013 Series C Bonds maturing on or after April 1, 2024 are subject to redemption prior to maturity at the option of the State, in whole or in part at any time on or after April 1, 2023 (with the series and maturities to be selected by the State and within a maturity on a “Pro Rata Pass-Through Distribution of Principal” basis in accordance with DTC procedures) at a redemption price equal to 100 percent of the principal amount thereof, plus accrued but unpaid interest to the date fixed for redemption.

Make-Whole Optional Redemption.

On or before April 1, 2023, the 2013 Taxable Bonds are subject to optional redemption by the State prior to their stated maturity dates, as a whole or in part, on any business day, at the “Make-Whole

Redemption Price,” plus accrued and unpaid interest on the 2013 Taxable Bonds to be redeemed on the date fixed for redemption.

The “Make-Whole Redemption Price” is the greater of (i) 100 percent of the principal amount of the 2013 Taxable Bonds to be redeemed and (ii) the sum of the present value of the remaining scheduled payments of principal and interest on the 2013 Taxable Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such 2013 Taxable Bonds are to be redeemed, discounted to the date on which the 2013 Taxable Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the “Treasury Rate” defined below, plus 15 basis points.

“Treasury Rate” means, with respect to any redemption date for a particular Series of 2013 Taxable Bond, the rate per annum, expressed as a percentage of the principal amount, equal to the semi-annual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

“Comparable Treasury Issue” means, with respect to any redemption date for a particular Series of 2013 Taxable Bond, the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the 2013 Taxable Bond to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the 2013 Taxable Bond to be redeemed.

“Comparable Treasury Price” means, with respect to any redemption date for a particular 2013 Taxable Bond:

(1) the most recent yield data for the applicable U.S. Treasury maturity index from the Federal Reserve Statistical Release H.15 Daily Update (or any comparable or successor publication) reported, as of 11:00 a.m. New York City time, on the Valuation Date; or

(2) if the yield described in (1) above is not reported as of such time or the yield reported as of such time is not ascertainable, the average of four Reference Treasury Dealer Quotations for that redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all quotations obtained by the Designated Investment Banker.

“Designated Investment Banker” means one of the Reference Treasury Dealers appointed by the State.

“Reference Treasury Dealer” means each of four firms, specified by the State from time to time, that are primary United States Government securities dealers in the City of New York (each, a “Primary Treasury Dealer”); provided, that if any of them ceases to be a Primary Treasury Dealer, the State is to substitute another Primary Treasury Dealer.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date for a particular Series of 2013 Taxable Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the Valuation Date.

“Valuation Date” means at least three (3) Business Days but not more than twenty (20) calendar days prior to the mailing of redemption notice.

Selection of 2013 Bonds to be Redeemed

2013 Tax-Exempt Bonds. In the event of any optional redemption, any maturity or maturities of the 2013 Tax-Exempt Bonds to be redeemed shall be selected by lot unless otherwise determined by the State and, if less than all of the 2013 Tax-Exempt Bonds are to be redeemed, the Fiscal Agent shall select the 2013 Tax-Exempt Bonds of such maturity to be redeemed by lot in such manner as the Fiscal Agent may determine.

2013 Taxable Bonds. In the case of redemptions of 2013 Taxable Bonds at the option of the State, the State will select the maturities of the 2013 Taxable Bonds to be redeemed.

If the 2013 Taxable Bonds are not registered in book-entry only form, any redemption of less than all of a maturity of the 2013 Taxable Bonds shall be effected by the Trustee among owners on a pro-rata basis subject to minimum Authorized Denominations. The particular 2013 Taxable Bonds to be redeemed shall be determined by the Trustee, using such method as it shall deem fair and appropriate.

If the 2013 Taxable Bonds are registered in book-entry only form and so long as DTC or a successor securities depository is the sole registered owner of the 2013 Taxable Bonds, if less than all of the 2013 Taxable Bonds of a maturity are called for prior redemption, the particular 2013 Taxable Bonds or portions thereof to be redeemed shall be selected on a “Pro Rata Pass-Through Distribution of Principal” basis in accordance with DTC procedures, provided that, so long as the 2013 Taxable Bonds are held in book-entry form, the selection for redemption of such 2013 Taxable Bonds shall be made in accordance with the operational arrangements of DTC then in effect that currently provide for adjustment of the principal by a factor provided by the Trustee pursuant to DTC operational arrangements. If the Trustee does not provide the necessary information and identify the redemption as on a Pro Rata Pass-Through Distribution of Principal basis, the 2013 Taxable Bonds will be selected for redemption in accordance with DTC procedures by lot.

It is the State’s intent with respect to the 2013 Taxable Bonds that redemption allocations made by DTC, the DTC Participants or such other intermediaries that may exist between the State and the Beneficial Owners be made on a “Pro Rata Pass-Through Distribution of Principal” basis as described above. However, the State can provide no assurance that DTC, the DTC Participants or any other intermediaries will allocate redemptions among Beneficial Owners on such basis. If the DTC operational arrangements do not allow for the redemption of the 2013 Taxable Bonds on a Pro Rata Pass-Through Distribution of Principal basis as discussed above, then the 2013 Taxable Bonds will be selected for redemption in accordance with DTC procedures by lot.

Notice of Redemption

The Twenty-Fifth Supplemental Indenture provides that for any 2013 Bonds in the book-entry-only system, the Paying Agent is to give notice of any redemption of a 2013 Bond to DTC not less than 20 days prior to the date fixed for redemption, or such lesser time as may be permitted under DTC’s operational arrangements then in effect, and in the manner required in the State’s Letter of Representations to DTC. For 2013 Bonds that are not in the book-entry-only system, the Twenty-Fifth Supplemental Indenture provides that official notice of any redemption is to be given by the Paying Agent on behalf of the State by mailing a copy of an official redemption notice by first-class mail at least 20 days and not more than 60 days prior to the date fixed for redemption to the Owner or Owners of the 2013 Bond or Bonds to be redeemed, at the address shown on the Bond register or at such other address as is

furnished in writing by such Owner to the Paying Agent, unless the Owner of such 2013 Bond or Bonds waives notice.

The Twenty-Fifth Supplemental Indenture permits any notice of optional redemption of the 2013 Bonds or portions thereof to contain a statement that the redemption will be conditioned upon receipt by the Paying Agent of moneys sufficient to pay the redemption price of such 2013 Bonds or portions thereof or upon the satisfaction of any other condition, or that notice of redemption may be rescinded upon the occurrence of any other event. Notice of such rescission or of the failure of any such condition is to be given by the Paying Agent to affected owners of the 2013 Bonds as promptly as practicable upon the failure of such condition or the occurrence of such other event.

The Twenty-Fifth Supplemental Indenture provides that, upon the giving of proper notice of redemption, any 2013 Bonds or portions of 2013 Bonds so to be redeemed are on the date fixed for redemption (except as described above) to become due and payable at the redemption price therein specified, and from and after such date (unless the State defaults in the payment of the redemption price) such 2013 Bonds or portions of 2013 Bonds are to cease to bear interest.

Defeasance

All or any portion of the 2013 Bonds may be paid and discharged in full in accordance with the terms of the Master Indenture by paying or providing for payment of the 2013 Bonds. See APPENDIX C—“SUMMARY OF THE MASTER INDENTURE—Defeasance” and, in connection with the 2013 Taxable Bonds, see “TAX MATTERS—The 2013 Taxable Bonds – Federally Taxable—Defeasance.”

THE 2013 BONDS PROJECTS

The State intends to make grants or loans for, or to pay a portion of, the costs of the projects as described below with proceeds of the 2013 New Money Bonds, and to pay costs of issuing the 2013 New Money Bonds. The projects expected to be financed with proceeds of the 2013 Series A Bonds are referred to herein as the “Tax-Exempt Projects” and the projects expected to be financed with the proceeds of the 2013 Series B Bonds are referred to herein as the “Taxable Projects.” The State may substitute other authorized projects for any of these projects.

**TABLE 1
EXPECTED PROJECTS**

Series	Project Agency/ Department	Project Summary	Estimated Bond Proceeds⁽¹⁾ (In Millions)
2013 A	Oregon University System	SOU – Science Building Seismic Remediation	\$ 20.9
2013 A	Oregon University System	OIT – Portland Campus Consolidation	10.0
2013 A	Oregon University System	OSU – Business Education Building	24.1
2013 A	Oregon University System	WOU – Natural Science Laboratory Annex	7.2
2013 A	Oregon University System	EOU – Quinn Coliseum Deferred Maintenance	13.2
2013 A	Oregon University System	System-wide Capital Renewal and Safety Projects	24.9
2013 A	Community College & Workforce Development	Community College Projects	8.6
2013 A	Dept of Transportation	Connect Oregon IV Project	33.1
TOTAL			\$141.9
2013 B	Business Oregon	Special Public Works Fund Projects	\$10.0
2013 B	Oregon University System	OIT – Portland Campus Consolidation	10.0
2013 B	Housing & Comm. Services	Affordable Housing Grants	5.0
2013 B	Community College & Workforce Development	Community College Projects	1.0
2013 B	Dept of Admin. Services	Bond Administration	1.5
TOTAL			\$27.5

⁽¹⁾ Does not include financing costs.

Source: Department of Administrative Services.

PLAN OF REFUNDING

To effect debt service savings, the State plans to use a portion of the proceeds to be received from the sale of the 2013 Refunding Bonds to refund all or a portion of certain Outstanding State of Oregon Department of Administrative Services Oregon State Lottery Revenue Bonds shown in Table 2 below (collectively, the “Refunded Bonds”).

A portion of the proceeds of the 2013 Refunding Bonds are to be held by the State in escrow until applied, together with funds contributed by the State to pay interest on the Refunded Bonds, to refund the Refunded Bonds on the dates fixed for redemption (the “Redemption Dates”) shown in the table below.

TABLE 2
BONDS TO BE REFUNDED WITH PROCEEDS OF THE 2013 REFUNDING BONDS

Bonds to be Refunded	Principal Amount	Maturity Date (April 1)	Redemption Date	Redemption Price	CUSIP Number (68607V)	
2001 Series B	\$480,000	2014	May 16, 2013	100%	FS9	
	510,000	2015 [†]	May 16, 2013	100	FU4	
	540,000	2016 [†]	May 16, 2013	100	FU4	
2002 Series B	\$ 850,000	2014 [†]	May 16, 2013	100%	HB4	
	905,000	2015 [†]	May 16, 2013	100	HB4	
	970,000	2016 [†]	May 16, 2013	100	HB4	
	1,030,000	2017 [†]	May 16, 2013	100	HB4	
	1,100,000	2018 [†]	May 16, 2013	100	HB4	
2003 Series B	\$3,400,000	2014 [†]	October 1, 2013	100%	KE4	
	3,560,000	2015 [†]	October 1, 2013	100	KE4	
	3,720,000	2016 [†]	October 1, 2013	100	KE4	
	3,895,000	2017 [†]	October 1, 2013	100	KE4	
	4,070,000	2018 [†]	October 1, 2013	100	KE4	
2004 Series A	\$1,345,000	2015	April 1, 2014	100%	KU8	
	8,325,000	2015	April 1, 2014	100	KV6	
	650,000	2016	April 1, 2014	100	KW4	
	5,940,000	2016	April 1, 2014	100	KX2	
	570,000	2017	April 1, 2014	100	KY0	
	3,215,000	2017	April 1, 2014	100	KZ7	
	3,965,000	2018	April 1, 2014	100	LA1	
2005 Series B	\$495,000	2014	--	100%	MW2	
	515,000	2015	April 1, 2014	100	MX0	
	Term 2017	540,000	2016 [†]	April 1, 2014	100	MZ5
		570,000	2017 [†]	April 1, 2014	100	MZ5
	Term 2025	595,000	2018 [†]	April 1, 2014	100	NH4
		625,000	2019 [†]	April 1, 2014	100	NH4
		660,000	2020 [†]	April 1, 2014	100	NH4
		695,000	2021 [†]	April 1, 2014	100	NH4
		730,000	2022 [†]	April 1, 2014	100	NH4
		765,000	2023 [†]	April 1, 2014	100	NH4
		805,000	2024 [†]	April 1, 2014	100	NH4
		850,000	2025 [†]	April 1, 2014	100	NH4
	2005 Series C	\$ 665,000	2014	--	100%	NR2
700,000		2015	--	100	NS0	
735,000		2016	April 1, 2015	100	NT8	
Term 2018		770,000	2017 [†]	April 1, 2015	100	NV3
		810,000	2018 [†]	April 1, 2015	100	NV3
Term 2021		855,000	2019 [†]	April 1, 2015	100	NY7
		905,000	2020 [†]	April 1, 2015	100	NY7
		955,000	2021 [†]	April 1, 2015	100	NY7
Term 2025		1,005,000	2022 [†]	April 1, 2015	100	PC3
		1,060,000	2023 [†]	April 1, 2015	100	PC3
		1,115,000	2024 [†]	April 1, 2015	100	PC3
		1,175,000	2025 [†]	April 1, 2015	100	PC3

[†]Term Bonds.

A portion of the proceeds of the 2013 Refunding Bonds are to be used to redeem the Refunded Bonds on the Redemption Dates and at the prices (expressed as a percentage of the principal amounts to be redeemed) set forth in the table immediately above. For this purpose, the State intends to establish an escrow deposit account (the “Escrow Deposit Account”) with the Trustee, as escrow agent (the “Escrow Agent”) for the Refunded Bonds. The State expects to purchase direct obligations of the United States or obligations the principal of and interest on which are fully and unconditionally guaranteed by the United States for deposit into the Escrow Deposit Account together with cash or cash equivalents, if necessary, in an amount sufficient to provide for the payment of the redemption price of and interest on the Refunded Bonds.

Verification

Causey Demgen & Moore P.C. (the “Verification Agent”) is expected to deliver to the State on or before the date the 2013 Refunding Bonds are issued its reports indicating that it has verified the mathematical accuracy of (i) the mathematical computations relating to the sufficiency of the cash, if any, and maturing principal of and interest on the escrow investments to pay, when due, the principal of and interest and premium on the Refunded Bonds and (ii) any mathematical computations required by Bond Counsel related to the yield on the 2013 Refunding Bonds and certain escrow investments purchased with the 2013 Refunding Bonds, if applicable.

Bond Counsel may also rely upon such information in concluding that, subject to the condition that the State comply with certain covenants made to satisfy pertinent requirements of the Internal Revenue Code of 1986, as amended, (the “Code”) under present law, interest on the 2013 Tax-Exempt Bonds is not includible in gross income of the owners thereof for federal income tax purposes, and will not be treated as an item of tax preference in computing the alternative minimum tax for individuals and corporations. See “TAX MATTERS.”

ESTIMATED SOURCES AND USES OF 2013 BOND PROCEEDS

The estimated sources and uses of the proceeds of the 2013 Bonds are as follows:

	2013 Series A Bonds	2013 Series B Bonds	2013 Series C Bonds
<u>SOURCES OF FUNDS</u>			
Par amount of the 2013 Bonds	\$122,500,000	\$28,140,000	\$71,075,000
Transfer of Series 2007D Reserve Cash	196,436	38,064	--
Original issue premium	22,500,690	--	--
Total Sources	<u>\$145,197,126</u>	<u>\$28,178,064</u>	<u>\$71,075,000</u>
<u>USES OF FUNDS</u>			
Deposit to Project Accounts	\$141,867,463	\$27,490,000	--
Transfer of Series 2007D Reserve Cash	196,436	38,064	--
Prior Bonds Reserve Subaccount Deposit	2,512,958	487,743	--
Escrow Deposit	--	--	\$70,679,556
Underwriters’ Discount	430,721	81,562	194,276
Costs of Issuance ⁽¹⁾	189,549	80,695	201,168
Total Uses	<u>\$145,197,126</u>	<u>\$28,178,064</u>	<u>\$71,075,000</u>

⁽¹⁾ Includes legal fees, printing costs, fees and expenses of the financial advisor and the rating agencies and other miscellaneous expenses.

SOURCES OF PAYMENT AND SECURITY

Constitutional Requirement to Pay Lottery Revenue Bonds

Article XV, Section 4 of the Oregon Constitution requires the Legislative Assembly to appropriate net proceeds from the Lottery to repay Lottery Revenue Bonds before appropriating net proceeds from the Lottery for any other purpose. Remaining net proceeds from the Lottery are distributed to the Education Stability Fund, to the Parks and Natural Resources Fund and as required by the Constitution, are allocated and applied to certain economic development and educational purposes. See “—Allocations and Uses of Lottery Proceeds,” “—Education Stability Fund” and “THE OREGON STATE LOTTERY—History of the Oregon State Lottery.”

Pledged Sources of Repayment

The Lottery Revenue Bonds are special obligations of the State payable on an equal and ratable (*pari passu*) basis from, and with a lien in favor of the Trustee upon, the Pledged Revenues.

Only the Pledged Revenues are pledged to the repayment of the Lottery Revenue Bonds. As authorized by the Act, the State has provided its moral obligation to replenish the Reserve Account in the event that the Reserve Account is drawn down below the Reserve Requirement to pay debt service on the Bonds. Amounts that may be appropriated by the State from time to time to replenish the Reserve Account are not expressly pledged to the repayment of any Lottery Revenue Bonds prior to the time any such Appropriated Funds are actually deposited into the Reserve Account.

The State has also pledged the Pledged Revenues to pay amounts, if any, due to Reserve Credit Facility Providers in connection with Reserve Credit Facilities. See “SUMMARY OF THE MASTER INDENTURE—Reserve Account” and the definitions of “Reserve Credit Facility” and “Reserve Credit Facility Provider” in Appendix C.

Allocations and Uses of Lottery Proceeds

In order of priority of claim on Lottery proceeds, applicable State law provides for the following applications of Lottery proceeds.

First, gross Lottery proceeds are credited to the State Lottery Administrative Account with the State Treasury from which prizes and expenses of the Lottery are paid.

Second, net proceeds (gross Lottery proceeds less prizes and expenses) are transferred quarterly to the Department for deposit to the Economic Development Fund.

Net proceeds that are transferred quarterly to the Department are referred to as “Unobligated Net Lottery Proceeds.”

Third, Unobligated Net Lottery Proceeds are required to be allocated to the Bond Fund, to pay Lottery Revenue Bond-related Costs and to satisfy the constitutional dedications described in the next paragraph. Oregon statutes provide that the first dollars of Unobligated Net Lottery Proceeds received by the State must be allocated to the Bond Fund, and that, if Unobligated Net Lottery Proceeds are not sufficient to both pay Lottery Revenue Bonds and satisfy the constitutional dedications described in the next paragraph, the available Unobligated Net Lottery Proceeds will be applied first to pay the Lottery Revenue Bonds.

Article XV, Section 4 of the Oregon Constitution requires that 18 percent of net proceeds from the Lottery be transferred to the Education Stability Fund described below and that 15 percent of net proceeds from the Lottery be transferred to the Parks and Natural Resources Fund.

Fourth, remaining amounts are required to be allocated to various economic development and public education projects as authorized by Article XV, Section 4 of the Oregon Constitution and applicable State law.

The State has reserved the right to amend the Master Indenture to, among other things, provide for installment funding of the Debt Service Account and the Reserve Account from Unobligated Net Lottery Proceeds. **By purchase and acceptance of the 2013 Bonds, the Owners of the 2013 Bonds will be deemed to have irrevocably consented to such amendments to the Master Indenture as described herein and in Appendix C.** See “CERTAIN PROVISIONS OF THE MASTER INDENTURE—Proposed Amendments” and APPENDIX C—“SUMMARY OF THE MASTER INDENTURE—Proposed Amendments.”

Unobligated Net Lottery Proceeds

The Master Indenture requires that in each fiscal year, and prior to any use of such moneys for any other purpose, all Unobligated Net Lottery Proceeds be deposited into the subaccounts in the Debt Service Account until each subaccount contains an amount equal to the scheduled debt service for that fiscal year on the Lottery Revenue Bonds that are payable from that subaccount. The Unobligated Net Lottery Proceeds consist of all revenues derived from the operation of the Lottery, including any and all games or other activities the Lottery may operate in the future, except for revenues used for the payment of prizes and expenses of the Lottery. See “—Allocations and Uses of Lottery Proceeds” above.

Lien of Pledged Revenues on Lottery Proceeds

Under the Master Indenture, the State Treasurer, on behalf of the State, has pledged and assigned to the Trustee all right, title and interest of the State in and to the Pledged Revenues to the repayment of all Lottery Revenue Bonds, including the 2013 Bonds. In addition, under the Master Indenture, the State has pledged the Unobligated Net Lottery Proceeds available for transfer to the Reserve Account to pay amounts due to a Reserve Credit Facility Provider under or in connection with any Reserve Credit Facilities. The Act specifically authorizes the State’s pledge of the Pledged Revenues and provides that the lien of such pledge (1) is valid and binding immediately upon delivery of each Series of Lottery Revenue Bonds, (2) attaches immediately upon receipt of any amounts constituting part of the Pledged Revenues by the State, regardless of when or whether such amounts are allocated or transferred to the appropriate fund, (3) is effective without physical delivery, filing or other act and (4) is superior to all other claims, liens or appropriations of any kind whatsoever, except to the extent specifically limited in the State Treasurer’s pledge. The Act provides that the State shall not create any lien or encumbrance on Unobligated Net Lottery Proceeds that is superior to the lien of the pledge granted by the State Treasurer, except as permitted by the terms of the State Treasurer’s pledge. The only liens and encumbrances on the Pledged Revenues that may be on parity with the 2013 Bonds are other Lottery Revenue Bonds. See “SUMMARY OF THE MASTER INDENTURE—Pledge” in Appendix C. The Act provides that all Pledged Revenues credited to the Bond Fund are continuously appropriated only to the payment of the principal of, premium, if any, and interest on the Lottery Revenue Bonds when due.

Reserve Account and State Moral Obligation

Authorization and Initial Funding of the Reserve Account. The Master Indenture requires the State to maintain the Reserve Account and to maintain a balance in each subaccount established in the

Reserve Account that is at least equal to the Reserve Requirement for the Lottery Revenue Bonds that are secured by such subaccount. Amounts in each subaccount of the Reserve Account may only be used to pay the Lottery Revenue Bonds that are secured by that subaccount.

Pursuant to the Master Indenture, the Reserve Requirement is calculated separately for each subaccount. The Reserve Requirement for a Reserve Subaccount is generally defined in the Master Indenture as the lesser of (i) Maximum Annual Debt Service on all Lottery Revenue Bonds secured by such subaccount Outstanding on the date of calculation or (ii) the Minimum Amount for that subaccount.

“Minimum Amount” is defined in the Master Indenture as the sum of the amounts the State is required to have in the subaccount under the following rule: whenever the State issues a Series of Lottery Revenue Bonds that is secured by a subaccount in the Reserve Account, the State shall add to any required balance in the subaccount the lesser of (a) the amount required to make the balance in such subaccount equal to Maximum Annual Debt Service on all Outstanding Lottery Bonds secured by that subaccount (with the Lottery Revenue Bonds of the additional Series treated as Outstanding) or (b) the Tax Maximum for the Series being issued. The Master Indenture provides that the Minimum Amount may be calculated whenever a Series of Lottery Revenue Bonds is issued and, when a Series of Lottery Revenue Bonds is paid, defeased or otherwise ceases to be secured by the subaccount, may be recalculated as if that Series has not been issued. See “SUMMARY OF THE MASTER INDENTURE—Definitions—Minimum Amount” in Appendix C.

“Tax Maximum” is defined in the Master Indenture as, for any Series of Lottery Revenue Bonds, the least of (x) Maximum Annual Debt Service for the Series (y) 125 percent of the average annual debt service for the Series for all fiscal years during which the Series will be outstanding, calculated as of the date of issuance of that Series, or (z) 10 percent of the proceeds of the Series, as “proceeds” is defined for purposes of Section 148(d) of the Code, calculated as of the date of issuance of such Series. See “SUMMARY OF THE MASTER INDENTURE—Definitions—Tax Maximum” in Appendix C. Because the State is not required to add more than the Tax Maximum to a Reserve Subaccount when Additional Bonds are issued, the balance in a Reserve Subaccount may be less than Maximum Annual Debt Service on the Lottery Revenue Bonds that are secured by that subaccount.

The State may establish additional subaccounts within the Reserve Account when Additional Bonds are issued. Alternatively, the State may elect to secure a Series of Additional Bonds with the Prior Bonds Reserve Subaccount or with any other subaccount to the extent permitted by the Supplemental Indenture establishing such subaccount.

The Master Indenture also provides that the State is not obligated to add amounts to the Reserve Subaccount that secures Additional Bonds of a Series in connection with a partial refunding if the debt service on the refunding Lottery Revenue Bonds secured by that Reserve Subaccount does not exceed the debt service on the refunded Lottery Revenue Bonds secured by that Reserve Subaccount by more than \$5,000 in any fiscal year.

See “SUMMARY OF THE MASTER INDENTURE” in Appendix C, including the definitions of “Reserve Credit Facility,” “Reserve Requirement,” “Minimum Amount” and “Tax Maximum,” and the information under the subheading “Reserve Account.”

Prior Bonds Reserve Subaccount. The State established the Prior Bonds Reserve Subaccount to secure all the Lottery Revenue Bonds issued prior to January 1, 2007 (the “Prior Bonds”) and any Series issued after that date that the State elects to secure with the Prior Bonds Reserve Subaccount. Before issuance of the 2013 Bonds, the Prior Bonds Reserve Subaccount secures 18 Series of Outstanding Lottery Revenue Bonds.

The State intends to secure the 2013 Bonds with the Prior Bonds Reserve Subaccount. The current balance in the Prior Bonds Reserve Subaccount is approximately \$69.2 million. Upon the issuance of the 2013 Bonds, the State expects to make a deposit to the Prior Bonds Reserve Subaccount to maintain a balance that is at least equal to Maximum Annual Debt Service on all Series of Lottery Revenue Bonds that are secured by the Prior Bonds Reserve Subaccount, including the 2013 Bonds.

As shown in the table below the Prior Bonds Reserve Subaccount is funded with a combination of cash or cash equivalents and investment securities, consisting primarily of guaranteed investment contracts (“GICs”) that pay a higher rate of interest than the State could obtain in the current market. The GICs were originally made with highly rated entities, but the ratings of those entities have declined, and these contracts are now collateralized with U.S. Treasury and Agency investments of not less than 100% of the amount that is available to be drawn on them. If the ratings of the GIC providers improve the collateral may be withdrawn.

**TABLE 3
OREGON STATE LOTTERY
PRIOR BONDS RESERVE SUBACCOUNT
(AS OF MARCH 6, 2013)**

Cash and Other Investments	Amount⁽¹⁾⁽²⁾ (in millions)	Collateralization	Investment Contract Provider	Termination Date
Cash or Cash Equivalents	\$ 6.59	N/A	N/A	N/A
Investment Contract	0.67	104 – 105% ⁽³⁾	AIG Financial Products (Jersey) Limited	April 1, 2013
Investment Contract	15.39	104 – 105% ⁽³⁾	AIG Financial Products (Jersey) Limited	April 1, 2014
Investment Contract	25.61	104 – 105% ⁽³⁾	Security Life of Denver Insurance Corp. (ING)	June 30, 2014
Investment Contract	14.75	100%	Bank of America, N.A.	April 1, 2015
Investment Contract	3.69	104 – 105% ⁽³⁾	AIG Matched Funding Corp.	April 1, 2016
Investment Contract	2.52	104 – 105% ⁽³⁾	AIG Matched Funding Corp.	April 1, 2027
TOTAL	\$69.23			

⁽¹⁾ Amounts shown are estimates as of March 6, 2013. The State expects to make a deposit to the Prior Bonds Reserve Subaccount on the date of delivery of the 2013 Bonds.

⁽²⁾ Totals may reflect rounding.

⁽³⁾ Weekly mark to market.

Source: Department of Administrative Services.

The State has reserved the right to substitute a Reserve Credit Facility for any portion of the cash and investment securities in the Prior Bonds Reserve Subaccount. A Reserve Credit Facility must be issued or provided by a Reserve Credit Facility Provider whose long-term debt obligations or claims-paying ability (as appropriate) are rated in one of the two highest rating categories by a Rating Agency which rate the Bonds secured by the applicable Reserve Credit Facility at the time of the substitution. The State may also invest amounts in the Prior Bonds Reserve Subaccount in additional GICs. As described below, the State has reserved the right to amend the Master Indenture to provide, among other things, procedures for valuing GICs and Reserve Credit Facilities on deposit in Reserve Subaccounts. See “CERTAIN PROVISIONS OF THE MASTER INDENTURE—Proposed Amendments.”

Maintenance of the Reserve Account and State Moral Obligation. The State Treasurer, on behalf of the State and pursuant to the authority granted by the Act, has covenanted in the Master Indenture that the State shall maintain the Reserve Account and shall maintain a balance in each Reserve

Subaccount that is at least equal to the Reserve Requirement for that subaccount, but solely from the Pledged Revenues and any Appropriated Funds as provided in the Master Indenture.

If the balance in a Debt Service subaccount 15 calendar days before a Bond Payment Date is not sufficient to pay debt service due on that Bond Payment Date on the Lottery Revenue Bonds that are secured by that subaccount, the Trustee is required to transfer the amount of the deficiency from the corresponding subaccount in the Reserve Account. The amounts so transferred are to be applied solely to pay Lottery Revenue Bonds that are secured by that Debt Service subaccount. Transfers from a Reserve Subaccount funded with cash or Investment Securities are to be made 15 calendar days prior to the Payment Date or on the next Business Day if the Payment Date is not a Business Day. If the Reserve Subaccount is funded with Reserve Credit Facilities, the transfer is to be made as soon as the Reserve Credit Facilities permit amounts to be withdrawn, but not earlier than 15 calendar days prior to the Payment Date and not later than that Payment Date.

If the Trustee is required to make a transfer from the Reserve Account to the Debt Service Account because the amount deposited in the Debt Service Account fifteen days prior to a Lottery Revenue Bond payment date is not sufficient to make the Lottery Revenue Bond payments that are due on that payment date, the Director of the Department is required to notify the Governor that Appropriated Funds are required to allow the Lottery Revenue Bonds to be timely paid, and to deliver a certification of such deficiency to the Legislative Assembly, if it is in session, or to a joint legislative committee (commonly referred to as the “Emergency Board”) appointed by the Legislative Assembly to act on its behalf if the Legislative Assembly is not in session. See “—Appropriation Procedures; The Emergency Board.” In his or her certification, the Director is required to identify the amount then required to restore the balance in all subaccounts of the Reserve Account to their required levels and to certify that the Legislative Assembly or the Emergency Board must provide Appropriated Funds to allow the Lottery Revenue Bonds to be timely paid.

The Act permits the Legislative Assembly or the Emergency Board to authorize the transfer of Appropriated Funds to replenish any deficiency in the Reserve Account in the amount or amounts certified by the Director of the Department in accordance with the preceding paragraph. This permission is referred to as the State’s “moral obligation.” In February 2002, in the context of litigation then pending that challenged the constitutionality of the Lottery, the Legislative Assembly confirmed the use of the moral obligation and the Legislative Assembly’s then-current intention (but not obligation) to comply with its moral obligation to appropriate funds to replenish the Reserve Account following a draw on the Reserve Account to pay debt service on the Lottery Revenue Bonds. See “SOURCES OF PAYMENT AND SECURITY—Pledged Sources of Repayment,” “—Parity Status of Lottery Revenue Bonds” and “LITIGATION—Past Litigation Involving the Lottery.”

In the Twenty-Fifth Supplemental Indenture, the State reserves the right to amend the Master Indenture to permit replenishing deficiencies in Reserve Subaccounts resulting from the bankruptcy or insolvency of a Reserve Credit Facility Provider or GIC provider (but not resulting from a draw on the Reserve Subaccount to pay debt service on the Bonds or from any other investment loss) over a period of five years in substantially equal annual installments and to provide for a means of valuing Reserve Credit Facilities and GICs. The amendments also would permit the State to issue Additional Bonds when the balance of any Reserve Subaccount is below the applicable Reserve Requirement so long as such annual deposits are made. In addition, the amendments would clarify that the ratings requirement for a Reserve Credit Facility Provider would apply only at the time that the Reserve Credit Facility is issued. See “CERTAIN PROVISIONS OF THE MASTER INDENTURE—Proposed Amendments—General Amendments” and APPENDIX C—“SUMMARY OF THE MASTER INDENTURE—Proposed Amendments.”

In addition to the Prior Bonds Reserve Subaccount, the State currently has six subaccounts in the Reserve Subaccount to secure specific series of Outstanding Lottery Bonds (the “Series Specific Reserve Subaccounts”). As shown in the table on the following page, these Series Specific Reserve Subaccounts are funded with a combination of Reserve Credit Facilities and cash and investments. The 2013 Bonds are not secured by the amounts on deposit in the Series Specific Reserve Subaccounts. The table below is provided for informational purposes.

**TABLE 4
OREGON STATE LOTTERY
SERIES SPECIFIC RESERVE SUBACCOUNTS⁽¹⁾
(AS OF MARCH 1, 2013)**

Reserve Subaccount	Debt Service Reserve Requirement (In Millions)⁽²⁾	Secured Series	Method of Funding	Credit Facility Provider
2007 Reserve Subaccount	\$12.4	2007 Series A 2007 Series B	Reserve Credit Facility	Financial Security Assurance Inc.
2007C Reserve Subaccount	1.9	2007 Series C	Reserve Credit Facility	Ambac Assurance Corporation
2007D Reserve Subaccount ⁽³⁾	0.2	--	Cash and investments	
2008 A&B Reserve Subaccount	6.7	2008 Series A 2008 Series B	Reserve Credit Facility	Ambac Assurance Corporation
2009 A&B Reserve Subaccount	36.9	2009 Series A 2009 Series B	Cash and investments	
2009D Reserve Subaccount	3.4	2009 Series D	Cash and investments	
2010 Reserve Subaccount	3.3	2010 Series A 2010 Series B	Cash and investments	

⁽¹⁾ Excludes Prior Bonds Reserve Subaccount.

⁽²⁾ Approximate amounts of debt service reserve requirement computed as of March 1, 2013, and do not reflect any changes in the debt service reserve requirement that may occur as a result of the defeasance of any Refunded Bonds.

⁽³⁾ The Series 2007D Bonds are paid off. On the date of delivery of the 2013 Bonds, the cash in the 2007D Reserve Subaccount is to be deposited to the Prior Bonds Reserve Subaccount. See “ESTIMATED SOURCES AND USES OF 2013 BOND PROCEEDS.”

Source: Department of Administrative Services.

Nature of the State’s Moral Obligation. The State’s moral obligation does not represent any legal compulsion or obligation to provide any Appropriated Funds, and the Act provides that the State will not be liable to any party for a failure to provide Appropriated Funds. The following language is included in the Act:

By enacting this subsection, the Legislative Assembly acknowledges its current intention to provide appropriated funds in the amount certified by the director under this subsection. However, the Legislative Assembly or the Emergency Board shall not have any legal obligation to provide any appropriated funds. ORS 286A.580(6).

Appropriation Procedures; The Emergency Board

While the Legislative Assembly is in session, as described below, an appropriation may be made by the passage of a bill by both the State Senate and State House of Representatives that authorizes the expenditure of moneys during the biennium for certain purposes. The bill must be signed by the Governor to become law. Article IV, Section 10 of the Oregon Constitution provides for annual sessions of the Legislative Assembly, with sessions in odd-numbered years for a period not to exceed 160 calendar

days in duration, and sessions in even-numbered years for a period not to exceed 35 calendar days in duration. See APPENDIX A—“THE STATE OF OREGON GOVERNMENTAL ORGANIZATION—The Legislative Branch” and “STATE FINANCIAL OPERATIONS—Budgetary Process.”

State law also provides a mechanism that permits money to be allocated for a moral obligation if the Legislative Assembly is not in session. Article III, Section 3 of the Oregon Constitution provides that when the Legislative Assembly is not in session, the Emergency Board may make emergency allocations of money appropriated to the Emergency Board for such purposes and authorize expenditures beyond budgetary limits. The Emergency Board typically meets every other month while the Legislative Assembly is not in session. The Legislative Assembly adopts a formal calendar of pre-scheduled Emergency Board meetings at the end of each regular legislative session. See APPENDIX A—“THE STATE OF OREGON GOVERNMENTAL ORGANIZATION—The Legislative Branch” and “STATE FINANCIAL OPERATIONS—Budgetary Process.”

Education Stability Fund

Oregon law and the Master Indenture permit the State to use interest earnings on amounts in the Education Stability Fund to pay Lottery Revenue Bonds that were issued to finance public education. The State may deposit those interest earnings in the Dedicated Payments Subaccount in the Bond Fund and may instruct the Trustee to apply the amounts so deposited to the payment of debt service on one or more Series of Lottery Revenue Bonds. The Master Indenture provides that to the extent that the State deposits amounts in the Dedicated Payments Subaccount, the obligation of the State to deposit Unobligated Net Lottery Proceeds in the Bond Fund will be reduced. Earnings on the Education Stability Fund are not pledged to pay the Lottery Revenue Bonds.

Parity Status of Lottery Revenue Bonds

The Master Indenture provides that the Lottery Revenue Bonds, including the 2013 Bonds, have an equal and ratable (*pari passu*) claim on Pledged Revenues, including Unobligated Net Lottery Proceeds, and amounts credited to the Debt Service Account, including earnings. The Master Indenture requires that Unobligated Net Lottery Proceeds be allocated as soon as practicable after receipt: *first*, to the Debt Service Account in an amount that, when added to the amounts available in the Debt Service Account and the Dedicated Payments Subaccount, makes the balance in the Debt Service Account, plus the amount available in the Dedicated Payments Subaccount, at least equal to the Lottery Revenue Bond principal, interest and redemption premium, if any, that is scheduled to be paid during the current fiscal year; *second*, to the subaccounts in the Reserve Account in an amount that, when added to the amount on deposit in each subaccount of the Reserve Account, is necessary to restore the balance in all subaccounts of the Reserve Account to their Reserve Requirements; *third*, any amounts due under or in connection with any Reserve Credit Facility that are not paid from amounts described in clause “second;” and *fourth*, to the Administrative Fund in an amount that is required to pay any amounts due under a Credit Facility and any other Lottery Revenue Bond-related Costs that are scheduled to be paid during the fiscal year and for which funds are not otherwise available. The Master Indenture provides that no Unobligated Net Lottery Proceeds may be allocated to the Reserve Account or to pay any other Lottery Revenue Bond-related Costs until the Debt Service Account has been fully funded to the required level for the current fiscal year.

Additional Bonds

The State may issue Additional Bonds for any lawful purpose if: (1) there is no continuing Event of Default under the Master Indenture; (2) at the time of the issuance of the Additional Bonds there is no deficiency in the Debt Service Account; (3) the State identifies the subaccount in the Reserve Account

that will secure the Additional Bonds, and the balances in all subaccounts of the Reserve Account, including the subaccount that secures the Additional Bonds, are at least equal to the Reserve Requirements for those subaccounts (or, after the amendments become effective, if any required annual deposits have been made to those subaccounts), with the Additional Bonds treated as Outstanding; (4) the sum of the Unobligated Net Lottery Proceeds for any twelve consecutive month period selected by the Department from the eighteen complete months preceding the month of issuance of the Series of Additional Bonds, plus the amount of any Guaranteed Reserve Earnings (as defined in the Master Indenture) for that period, are at least 400 percent of the Maximum Annual Debt Service on all then-Outstanding Lottery Bonds (with the Additional Bonds treated as Outstanding); (5) the Director of the Department certifies that the State's most recent formal forecast of future Lottery revenues, which forecast must have been prepared within the six-month period preceding the date of issuance of the Additional Bonds, indicates that forecasted Unobligated Net Lottery Proceeds, plus the amount of any Guaranteed Reserve Fund Earnings for the twelve-month period described in (4), for each fiscal year in the forecast period will at least equal 400 percent of the Maximum Annual Debt Service on all then Outstanding Lottery Bonds (with the Additional Bonds treated as Outstanding); and (6) the Director of the Department certifies that there has been no change in the Constitution of the State of Oregon, Oregon statutes, or the practices of the Lottery since the date of the forecast described in (5) that would reasonably be expected to reduce Unobligated Net Lottery Proceeds below 400 percent of the Maximum Annual Debt Service on all then Outstanding Lottery Bonds in any fiscal year in which Outstanding Lottery Bonds (with the Additional Bonds treated as Outstanding) are scheduled to be paid. All of the 2013 Bonds are to be issued as Additional Bonds subject to the conditions set forth under the Master Indenture for issuance of Additional Bonds. See "SUMMARY OF THE MASTER INDENTURE—Flow of Funds," "—Additional Bonds" and "—Proposed Amendments" in Appendix C and "RECENT DEVELOPMENTS—Actions of the Legislative Assembly—2012 Legislative Session."

Additional Bonds may also be issued to refund Outstanding Lottery Bonds without meeting the above requirements but only if the debt service on the refunding Additional Bonds does not exceed the debt service on the refunded Lottery Revenue Bonds by more than \$5,000 in any fiscal year. See "SUMMARY OF THE MASTER INDENTURE—Flow of Funds," "—Additional Bonds" and "—Proposed Amendments" in Appendix C.

Parity Derivative Products

The State may enter into Derivative Products. A Derivative Product may be a Parity Derivative Product that is secured on parity with Additional Bonds if the obligation to make State Payments under the Derivative Product qualifies as an Additional Bond, after the Reciprocal Payments under the Derivative Product are applied to reduce Annual Debt Service. As defined in the Master Indenture, "Derivative Product" means a written contract between the State and a Reciprocal Payor under which the State is obligated to pay the State Payments in exchange for the Reciprocal Payor's obligation to pay Reciprocal Payments, and which provides that the Reciprocal Payments are to be deposited directly into the Bond Fund and that the State is not required to fulfill its obligations under the contract if: (a) the Reciprocal Payor fails to make any Reciprocal Payment; or (b) the Reciprocal Payor fails to comply with its financial status covenants. See "SUMMARY OF THE MASTER INDENTURE—Definitions—Derivative Product" in Appendix C.

The State has not entered into any Parity Derivative Products or interest rate swaps in connection with the Lottery Revenue Bonds and currently has no plans to enter into Parity Derivative Products or interest rate swaps in connection with Lottery Revenue Bonds.

Subordinate Obligations

The Master Indenture provides that the State may issue Subordinate Obligations only if (i) the Subordinate Obligations are payable solely from the Unobligated Net Lottery Proceeds that are available in any fiscal year after all required transfers and deposits required by the Master Indenture have been made to the Bond Fund and the Administrative Fund, (ii) the Subordinate Obligations are not subject to acceleration and (iii) the Subordinate Obligations state clearly that they are secured by a lien on or pledge of the Pledged Revenues that is subordinate to the lien on, and pledge of, the Pledged Revenues for the Lottery Revenue Bonds. As of March 1, 2013, there are no Subordinate Obligations outstanding.

CERTAIN PROVISIONS OF THE MASTER INDENTURE

General

The Master Indenture consists of the Third Restated Master Indenture and any Supplemental Indentures, including the Twenty-Fifth Supplemental Indenture. A summary of the Third Restated Master Indenture and of the Twenty-Fifth Supplemental Indenture is set forth in Appendix C. Such summary, and the provisions of the Master Indenture described below, are qualified in their entirety by reference to the complete Third Restated Master Indenture and all Supplemental Indentures, including the Twenty-Fifth Supplemental Indenture, for full and complete statements of all provisions of the Master Indenture.

Covenant to Budget and Appropriate. In the Act, the Legislative Assembly has made continuing appropriations of Unobligated Net Lottery Proceeds to pay the Lottery Revenue Bonds. In the Master Indenture, the State has covenanted that if these continuing appropriations are ever altered, the State, subject only to the availability of Unobligated Net Lottery Proceeds, will budget and appropriate in each fiscal year an amount of Unobligated Net Lottery Proceeds that, when added to other funds lawfully budgeted and appropriated and available for such purpose, will be sufficient to pay amounts coming due on all outstanding Lottery Revenue Bonds in such fiscal year, maintain the balance in each subaccount of the Reserve Account at the Reserve Requirement for that subaccount and pay all amounts due to providers of Credit Facilities (as defined in the Master Indenture).

Covenant to Operate the Lottery. The State has covenanted that it shall continue to operate the Lottery until all Lottery Revenue Bonds, including the 2013 Bonds, are paid or defeased.

Covenant Not to Grant or Create any Superior Liens. The State has covenanted not to grant or create any lien on the Pledged Revenues or to issue any obligations that have a lien on the Pledged Revenues that is superior to the lien on the Pledged Revenues of the Lottery Revenue Bonds, including the 2013 Bonds, and to issue subordinate obligations only in accordance with the provisions of the Master Indenture.

Covenant to Issue Additional Bonds Only in Compliance with the Master Indenture. The State has covenanted to issue Additional Bonds only in accordance with the requirements for the issuance of Additional Bonds set forth in the Master Indenture.

Certain Events of Default Under the Master Indenture. In addition to certain bankruptcy-related events, each of the following events constitutes an Event of Default for all then-Outstanding Lottery Bonds, including the 2013 Bonds:

- (i) Default in the due and punctual payment of principal of or interest or premium on any Bond; or

(ii) Default in the performance or observance of any duties, covenants, obligations, agreements or conditions required on the part of the Treasurer or the Department to be performed under any of the Act or the Master Indenture, but only if the default continues for 90 days after written notice specifying the default and requiring the same to be remedied is given by the Trustee or the Owners of not less than 50 percent in aggregate principal amount of all Lottery Revenue Bonds then Outstanding, and the State fails to take reasonable steps to remedy the default within that 90-day period.

Remedies. The Master Indenture provides that upon the occurrence of an Event of Default, the Trustee shall have the rights and remedies set forth in the Master Indenture with respect to each Series of Lottery Revenue Bonds, and if requested by to do so by the Owners of a majority in principal amount of the Lottery Revenue Bonds then Outstanding, the Trustee shall be obligated to exercise such rights and remedies, but shall exercise such rights with respect to a Series of Lottery Revenue Bonds only with the consent of each Insurer of that Series of Lottery Revenue Bonds. Acceleration of the Lottery Revenue Bonds is not a remedy under the Master Indenture; in the event of multiple defaults in the payment of principal of or interest or premium on any Lottery Revenue Bond, the Owners of the Lottery Revenue Bonds would be required to make separate claims for each such default. See “SUMMARY OF THE MASTER INDENTURE—Defaults and Remedies” in Appendix C. The Master Indenture also provides that neither the State, the State Treasurer nor the Department will be liable for or required to advance any moneys derived from any source other than the Pledged Revenues, Lottery Revenue Bond proceeds and any Appropriated Funds for any of the purposes in the Master Indenture, whether for the payment of the principal or redemption price of or interest on the Lottery Revenue Bonds or for any other purpose of, or liability recognized under, the Master Indenture.

Proposed Amendments

The following is a description of certain amendments to the Master Indenture, which as of the date of this Official Statement are not yet effective, and the conditions upon which such amendments may become effective. If the amendments to the Master Indenture become effective, certain rights of the Owners of the Outstanding Bonds will change as described below and in “SUMMARY OF MASTER INDENTURE—PROPOSED AMENDMENTS” in Appendix C. None of the amendments to the Master Indenture described below and in Appendix C are or will be required to become effective for the State to satisfy the covenants under the Master Indenture or the test to issue all of the 2013 Bonds as Additional Bonds as required under the Master Indenture. The State could determine to not obtain additional consents or to not satisfy the requirements of the Master Indenture necessary to put one or more of the amendments described below into effect.

General Amendments. The Master Indenture includes requirements for amendments with and without written consents of the Owners. In the Twenty-Fifth Supplemental Indenture, the State has reserved the right to amend the Master Indenture and any Supplemental Indenture, to provide for certain matters as described below and in Appendix C (collectively, the “General Indenture Amendments”). The General Indenture Amendments include, among other amendments, timing for valuation of investment securities and reserve credit facilities, rating requirements for Reserve Credit Facility Providers, provisions for issuing Additional Bonds if all required deposits to all subaccounts of the Reserve Account have been made, and to permit replenishing deficiencies in Reserve Subaccounts resulting from the bankruptcy or insolvency of a Reserve Credit Facility Provider or GIC provider over a period of five years in substantially equal annual installments subject to certain limitations and requirements related to the State’s “moral obligation” and to provide for a means of valuing Reserve Credit Facilities and GICs (the “Replenishment Amendment”). For a detailed description of the proposed General Indenture Amendments, see APPENDIX C—“SUMMARY OF MASTER INDENTURE—Proposed Amendments” and “—Amendments.”

Pursuant to the Master Indenture, the General Indenture Amendments may take effect upon (a) receipt of consent of (1) each Insurer of affected Lottery Revenue Bonds (which the State has not received as of the date of issuance of the 2013 Bonds), and (2) the Owners of not less than 51 percent in aggregate principal amount of all Outstanding Lottery Revenue Bonds affected for which there are no Insurers (following the April 1, 2013 payment of Outstanding Lottery Revenue Bonds and prior to the issuance of the 2013 Bonds and the State has received consent from the Owners of \$665,525,000 of uninsured and affected Outstanding Lottery Revenue Bonds, which represents more than the required 51 percent consent) and (b) satisfaction of the requirements of the Master Indenture, including without limitation delivery to the Trustee of evidence of the required written consents of the Owners and the opinion of Bond Counsel as required under the Master Indenture.

At this time, the State cannot predict if all or any portion of the General Indenture Amendments will take effect. By purchase and acceptance of the 2013 Bonds, the Owners of the 2013 Bonds will be deemed to have irrevocably consented to the amendments to the Master Indenture as described herein and in Appendix C. See APPENDIX C—“SUMMARY OF MASTER INDENTURE—Proposed Amendments” and “—Amendments.”

Interest Subsidy Bonds Amendment. In connection with the issuance of the State’s Lottery Revenue Bonds, 2010 Series A (Tax-Exempt) and 2010 Series B (Federally Taxable), the State proposed to amend the Master Indenture, subject to obtaining the necessary written consents as required under the Master Indenture as described herein, to provide that the Lottery Revenue Bonds will be additionally secured by a pledge of any federal interest subsidies that the State is eligible to receive from the United States Treasury (the “Subsidy Payments”) for Lottery Revenue Bonds that qualify as “Build America Bonds” under the American Recovery and Reinvestment Act or similar legislation, and that the definition of “Annual Debt Service” will be amended to treat such Subsidy Payments as a set off against interest paid for purposes of satisfying the test for issuing Additional Bonds under the Master Indenture (the “Interest Subsidy Bonds Amendment”). Pursuant to the Interest Subsidy Bonds Amendment, the State would covenant to transfer any Subsidy Payments to the Trustee, or arrange for the Trustee to receive the Subsidy Payments, for direct deposit into the Debt Service Subaccount of the Lottery Revenue Bonds for which Subsidy Payments are paid. For the complete text of the Interest Subsidy Bonds Amendment, see APPENDIX C—“SUMMARY OF MASTER INDENTURE—Proposed Amendments” and “—Amendments.”

Pursuant to the Master Indenture, the Interest Subsidy Bonds Amendment may take effect upon (a) receipt of consent of (1) each Insurer of affected Lottery Revenue Bonds (which the State has not received as of the date of issuance of the 2013 Bonds), and (2) the Owners of not less than 51 percent in aggregate principal amount of all Outstanding Lottery Revenue Bonds affected for which there are no Insurers (following the April 1, 2013 payment of Outstanding Lottery Revenue Bonds and prior to the issuance of the 2013 Bonds, the State has received consent from the Owners of \$270,995,000 of uninsured and affected Outstanding Lottery Revenue Bonds representing approximately 36.5 percent of such Owners), and (b) satisfaction of the requirements of the Master Indenture, including without limitation delivery to the Trustee of evidence of the required written consents of the Owners and the opinion of Bond Counsel as required under the Master Indenture.

At this time, the State cannot predict if the Interest Subsidy Bonds Amendment will take effect. Current federal law provides little opportunity for the State to issue Lottery Revenue Bonds that are eligible for federal interest subsidies. By purchase and acceptance of the 2013 Bonds, the Owners of the 2013 Bonds will be deemed to have irrevocably consented to the amendments to the Master Indenture as described herein and in Appendix C. See APPENDIX C—“SUMMARY OF MASTER INDENTURE—Proposed Amendments” and “—Amendments.”

Installment Funding Amendment. Pursuant to the Twenty-Fifth Supplemental Indenture, the State is proposing to amend the Master Indenture, subject to obtaining the necessary written consents as required under the Master Indenture, as described herein (the “Installment Funding Amendment”) to allow installment funding of the Debt Service Account and the Reserve Account. When effective, the Installment Funding Amendment will change the required deposit of Unobligated Net Lottery Proceeds from once a year at the beginning of each Fiscal Year to twice each Fiscal Year, and will allow investment losses in the Reserve Account to be funded over five years with deposits made not later than the end of each Fiscal Year. Pursuant to the Installment Funding Amendment, the first deposit to be made for the period from July 1 through September 30 in an amount equal to the greater of (a) one half of the Annual Debt Service due during that Fiscal Year or (b) all Bond principal, interest and any redemption premium that is required to be made on or before December 31 of that Fiscal Year. The second deposit is to be made for the period from October 1 through June 30 of each Fiscal Year in an amount, which makes the balance in the Debt Service Account at least equal to the Annual Debt Service due during that Fiscal Year. The Installment Funding Amendment also establishes the priority of other deposits required under the Master Indenture, including deposits to the Reserve Account and other payments, and allows investment losses in the Reserve Account to be replenished from Unobligated Net Lottery Proceeds in five equal, annual installments that are made at the end of each Fiscal Year. The provisions of the Installment Funding Amendment also allow the State to request that the Legislative Assembly or the Emergency Board replenish the Reserve Account with an amount that is sufficient to make the balance in the Reserve Account equal to the next scheduled debt service payment on Outstanding Lottery Revenue Bonds rather than the entire deficit in the Reserve Account. For the complete text of the Installment Funding Amendment, see APPENDIX C—“SUMMARY OF MASTER INDENTURE—Proposed Amendments” and “—Amendments.”

Pursuant to the Master Indenture, the Installment Funding Amendment may take effect upon (a) receipt of consent of (1) each Insurer of affected Lottery Revenue Bonds (which the State has not received as of the date of issuance of the 2013 Bonds), and (2) the Owners of not less than 51 percent in aggregate principal amount of all Outstanding Lottery Revenue Bonds affected for which there are no Insurers (following the April 1, 2013 payment of Outstanding Lottery Revenue Bonds and prior to the issuance of the 2013 Bonds, the State has received consent from the Owners of \$232,540,000 of uninsured and affected Outstanding Lottery Revenue Bonds representing approximately 31.3 percent of such Owners), and (b) satisfaction of the requirements of the Master Indenture, including without limitation delivery to the Trustee of evidence of the required written consents of the Owners and the opinion of Bond Counsel as required under the Master Indenture.

At this time, the State cannot predict if the Installment Funding Amendment will take effect. By purchase and acceptance of the 2013 Bonds, the Owners of the 2013 Bonds will be deemed to have irrevocably consented to the amendments to the Master Indenture as described herein and in Appendix C. See APPENDIX C—“SUMMARY OF MASTER INDENTURE—Proposed Amendments” and “—Amendments.”

THE DEPARTMENT OF ADMINISTRATIVE SERVICES

Role in State Government

The Department is the administrative arm of the Governor’s Office. The Department prepares and coordinates State agency budget requests included in the budget submitted by the Governor to the Legislative Assembly. The Department also provides administrative and support services to State agencies. A major responsibility of the Department is to provide budgetary control over State government programs for the executive branch of the State. The Department works to ensure that State resources are used according to law, gubernatorial policy and legislative policy in the most effective and

economical manner and performs several other statewide administrative functions. The Department has general authority to operate and manage programs relating to central purchasing, motor fleet, printing, facilities construction and leasing, building maintenance, central stores, mail, insurance, telephone services and telecommunications. By law, the Department is responsible for budgetary management, supervision and control over all State government programs for the executive branch of the State. The Department, with the approval of the Governor, has general authority to adopt rules and regulations it considers necessary and proper to carry out the laws it is charged with administering. In addition, the Department has the authority to issue certificates of participation and other forms of indebtedness, as authorized by the Legislative Assembly, on behalf of State agencies with the approval of the State Treasurer. Centralizing these statewide functions in the Department provides coordination in obtaining proper budget and debt issuance authority, as well as proper accounting for financed projects. In addition, it provides State agencies the advantage of working with a single agency, the Department, as they plan for real property or personal property acquisitions needed to accomplish their agency missions.

Role in the Lottery and Administration of Lottery Bonds

The Department has several responsibilities with respect to the Lottery and the administration of lottery bonds. As described in “FINANCIAL OPERATIONS OF THE OREGON STATE LOTTERY” below, the Department’s Office of Economic Analysis (the “OEA”) is responsible for the preparation of certain Lottery revenue forecasts. In addition, the Department is responsible for: (1) administering the distribution of funds from the State Lottery Fund, (2) monitoring debt service payments on Lottery Revenue Bonds, and (3) if the valuation of the respective reserve accounts falls below the applicable reserve requirements because of a draw to pay debt service on any Lottery Revenue Bonds, or if amounts in the applicable reserve accounts will be drawn upon to pay debt service on any Lottery Revenue Bonds, the Director of the Department is required to notify the Governor and, as the representative of the executive branch, to certify to the Legislative Assembly or the Emergency Board the amount necessary to restore or replenish the applicable reserve account to the applicable reserve requirement. See “SOURCES OF PAYMENT AND SECURITY—Reserve Account and State Moral Obligation” and “—Appropriation Procedures; The Emergency Board.”

The Department is responsible for maintaining its own books and accounts and is subject to audit or review by the Secretary of State’s Office, Audits Division. The Department submits unaudited comprehensive annual financial statements to the Audits Division and the Statewide Accounting Division of the Department.

THE OREGON STATE LOTTERY

History of the Oregon State Lottery

The Lottery was created by voter approval of an amendment to the Oregon Constitution in 1984. That amendment was adopted by an approximately 2:1 margin and revised Article XV, Section 4 of the Oregon Constitution to require the establishment and operation of the Lottery.

Voter-Approved Changes to the Lottery. Since 1984, voters have approved several other amendments to the Oregon Constitution affecting the Lottery. In 1995, voters approved an amendment requiring the Legislative Assembly to appropriate amounts sufficient to pay lottery bonds before appropriating the net proceeds from the Lottery for any other purpose. The same amendment established the Education Endowment Fund, directed that 15 percent of net proceeds from the Lottery be deposited into the fund and authorized the use of net proceeds from the Lottery for public education. In September 2002, another voter-approved amendment changed the name of the fund to the Education Stability Fund and increased to 18 percent the amount of net proceeds from the Lottery required to be dedicated to public

education. See “SOURCES OF PAYMENT AND SECURITY—Education Stability Fund.” In 1997, voters approved a measure referred by the Legislative Assembly that authorized the issuance of lottery bonds for educational funding. In 1998, voters approved an amendment directing that another 15 percent of net proceeds from the Lottery be deposited in the Parks and Natural Resources Fund to be used for restoring and protecting the State’s parks, beaches, watersheds and critical fish and wildlife habitats. This amendment dedicated such funding through 2014. In November 2010, voters approved a constitutional amendment that continues the deposit of 15 percent of net proceeds from the Lottery to the Parks and Natural Resources Fund permanently.

Implementation of Lottery Operations. The Lottery’s first tickets went on sale April 25, 1985. Since that time, the Lottery has introduced additional games on an ongoing basis in response to market demand. New games have included MegabucksSM, the Lottery’s first on-line computer operated game, Keno, Powerball® and others. In 1992, the Lottery began operating a video game system, the first in the nation to be on-line to a central computer system operational 24 hours a day. See “—Mix of Games” below.

In addition to continued support from voters, the Lottery has sustained player loyalty. Market research conducted in May 2012 found that approximately 65 percent of adult Oregonians have ever played Lottery games, that approximately 53 percent have played at least one Lottery game in the past year and of those that have played in the past year, approximately 51 percent are “core” Lottery players (play at least one Oregon Lottery game at least once per month).

Constitutional Provisions

General Constitutional Authorization. Article XV, Section 4 of the Oregon Constitution sets forth the basic guidelines and requirements relating to the administration, management, purposes and authorized uses of Lottery funds.

Subsection (3) of Article XV, Section 4 requires that all proceeds from the Lottery, including interest earnings but excluding costs of administration and payment of prizes, be used for creating jobs, furthering economic development, financing public education in the State or restoring and protecting the State’s parks, beaches, watersheds and critical fish and wildlife habitats. Subsection (4)(d) of Article XV, Section 4 requires, among other provisions, that at least 84 percent of the total annual revenues from the sale of all lottery tickets or shares be returned to the public in the form of prizes and net revenues benefiting specified public purposes and that the Legislative Assembly appropriate amounts sufficient to pay lottery bonds before appropriating the net proceeds from the Lottery for any other purpose.

Constitutional Prohibition on Casinos and More Than One Lottery. Pursuant to an express prohibition contained in subsection (12) of Article XV, Section 4 of the Oregon Constitution, the Legislative Assembly is obligated to prohibit any casino operations in the State. This constitutional prohibition on casinos does not apply to casinos operated by federally recognized Indian tribes on reservation lands, however current constitutional provisions could be amended in the future. Subsection (11) of Article XV, Section 4 provides that only one lottery operation is permitted in the State. The Lottery is the sole permitted lottery. See “THE OREGON GAMING MARKET—Competition With Lottery Operations” and “RECENT DEVELOPMENTS—Initiatives, Referendum and Referrals.”

Dominant Use/Dominant Purpose. Subsection (12) of Article XV, Section 4 of the Oregon Constitution prohibits the establishment of casinos in the State. In *Ecumenical Ministries of Oregon v. Oregon State Lottery Commission*, the Oregon Supreme Court was asked to determine whether allowing video Lottery terminals (video poker machines) to be placed in taverns and certain other types of licensed and State regulated establishments where liquor is served would have the effect of creating casinos in the

State. The Court interpreted the word “casino” as used in the Oregon Constitution to mean any establishment existing for the dominant use or dominant purpose, or both, of gambling. In the context of that case, the Court further determined that legislation allowing the placement of up to five video Lottery terminals in a single establishment did not per se constitute the creation of a constitutionally prohibited casino. The Court found, however, that the specific number of video Lottery terminals placed in a location does not, in and of itself, mean that the establishment could never constitute a casino under the dominant use/dominant purpose test. In practice, the application of the dominant use/dominant purpose test may require consideration of a number of factors such as revenues from all sources and floor space ratios. These factors may vary from location to location.

The Lottery Commission adopted Oregon Administrative Rule 177-040-0061 to provide a framework and a process for determining when an establishment is or may be operating as a casino. The Lottery routinely conducts audits in this area to confirm compliance with the Lottery’s administrative rule and has terminated contracts with establishments that do not comply with the rule. Other methods employed by the Lottery to prevent Video LotterySM retailers from operating as casinos include limiting the number of Video LotterySM terminals in an establishment, limiting public view of Video LotterySM terminals, limiting certain advertising and promotional activities by Video LotterySM retailers and considering the sale of Lottery tickets and shares by Video LotterySM retailers an adjunct to their businesses.

Management and Organization

The Lottery Commission consists of five commissioners appointed by the Governor, confirmed by the Senate and serving at the pleasure of the Governor. At least one of the commissioners must have a minimum of five years’ experience in law enforcement and at least one of the commissioners must be a certified public accountant. The Lottery Commission directs the activities of the Lottery, including the adoption of rules to provide for the security, integrity, honesty and fairness of Lottery operations and approves the Lottery’s annual budget and business plan. Current commissioners and their respective dates of appointment to the Lottery Commission are: Elisa Dozono, Chair (September 17, 2012); Bill Ihle, Vice Chair (June 22, 2006); Mary Wheat (December 1, 2011) and Raul Valdivia (June 1, 2012). One Commission position is currently vacant.

The Director of the Lottery is also appointed by and serves at the pleasure of the Governor. The Director is responsible for operating the Lottery in accordance with state law and administrative rules and under the guidance of the Lottery Commission.

Officers of the Oregon State Lottery

Director. Larry Niswender was appointed by Governor John Kitzhaber as the Lottery’s Director in March 2011. Mr. Niswender formerly served as Lottery’s Acting Director for one year and as the Assistant Director of Support Services for more than four years. In total, Mr. Niswender has over 33 years of experience in State government.

Assistant Director of Support Services/Chief Operating Officer. Jon Clontz was appointed Assistant Director of Support Services in September 2011. At the time Mr. Clontz was appointed to this position, the duties of the position were expanded and the working title was changed to Chief Operating Officer. Mr. Clontz previously worked for five years as Chief of Operations for the State of Washington Department of Veterans Affairs. Prior to that, Mr. Clontz served as the Superintendent of Washington’s largest Veteran’s Home.

Assistant Director of Marketing and Retail Operations. Stacy Shaw was appointed Assistant Director of Marketing and Retail Operations in July 2012. Prior to the appointment, Ms. Shaw served as Lottery's Marketing Communications Manager. Ms. Shaw's management experience includes leading field sales and marketing teams as well as overseeing call and distribution centers.

Assistant Director of Security. Major Craig Durbin was appointed Assistant Director of Security in July 2008 and has been a member of the Oregon State Police since 1993. Major Durbin has extensive experience in law enforcement, including major crimes, drug enforcement, gambling, policy and administration and legislation.

Integrity of Lottery Operations

Security. The Lottery is required by law to contract with the Oregon State Police for security services, and the Lottery's Assistant Director for Security is a Major in the Oregon State Police. The Oregon State Police manage the Lottery Security section which tracks, oversees, or directly provides all aspects of security in Lottery operations including, but not limited to, computer operations; background investigations of employees, vendors, and any persons or organizations that will provide services for the Lottery's operations; Lottery drawings; retailer operations; and prize payments. The Oregon State Police manage physical security at all Lottery sites, investigate any crimes against the Lottery, and provide Lottery full access to law enforcement information-sharing networks. This access is used to conduct background investigations, remain up-to-date on potential threats to the security and integrity of Lottery operations, and review the backgrounds, where required, of winning ticket holders who claim prizes at the Lottery. In addition to personnel and site security, the Lottery also utilizes both in-house and third party quality control services to test all video game software for random operation, assuring the fairness of each play. Lottery maintains all video Lottery terminals under 24-hour surveillance through the video central system. Lottery security conducts in-house testing of Scratch-itsSM tickets in accordance with industry best practices for ticket testing. The Lottery ensures that the contracted vendor uses random number generators ("RNGs"), the industry standard for drawing-type games, for its MegabucksSM, Keno, Pick 4SM, Lucky LinesSM, Win for LifeSM and RaffleSM games. The Lottery ensures that the contracted vendor uses standard industry tests conducted by independent third-party labs to ensure the randomness of its RNG results and extensive steps are taken to ensure the security of the RNGs. In addition to testing and certification, these safeguards include securing the RNG through both physical and logical means, 24-hour security camera surveillance and regular, comprehensive, independent reviews of the entire Lottery security system.

Security of Annuity Prizes. Certain jackpot prizes from games conducted by or participated in by the Lottery involve the payment of significant prize amounts over a period of up to 30 years or, for the Win for LifeSM game, the winner's life span. The Lottery may be obligated to continue making such prize payments to the winners, even if the primary payor on any investments the Lottery has obtained to fund such annuity payments defaults on its primary payor obligation. In December 1993, the Lottery began purchasing all of its annuity payment instruments through the Oregon State Treasurer's office. These security instruments are U.S. Treasury STRPS payable by the federal government. The Lottery's annuity payment obligations provided for by such STRPS as of February 28, 2013 were \$164,016,000.

For annuity payment obligations incurred prior to December 1993, the Lottery sometimes contracted with private insurance companies for the purchase of annuities to pay major prizewinners. As of September 30, 2012, there were no outstanding liabilities associated with these annuities.

Mix of Games

The Oregon Lottery offers one of the broadest mixes of lottery games of any U.S. jurisdiction. It offers traditional games and Video LotterySM games that are designed to appeal to a very diverse group of players. As of July 1, 2007, the Lottery has no authority to offer games based upon sporting events.

Traditional Games. Games considered traditional Lottery games include a wide variety of game types including instant ticket, keno and other types of draw games. Traditional games are sold by Oregon Lottery retailers who contract with the Lottery to sell these products.

A description of the traditional Lottery games follows below.

Instant Ticket Games. Instant tickets include Scratch-itsSM and formerly included Breakopens. With Scratch-itSM, players know instantly if and what they have won. Scratch-itSM tickets have price points from \$1 to \$10 with odds of winning a prize, averaging 1 in 3.6. Starting in February 2013, registered players can enter eligible non-winning Scratch-itSM tickets in online Second Chance Drawings for another opportunity to win cash prizes. The Breakopen ticket was discontinued and as of June 2008, was not available to retailers for order.

Oregon MegabucksSM. MegabucksSM is Oregon's in-state draw game with a minimum jackpot prize of \$1 million. The jackpot prize grows every drawing if it is not won, with sales increasing as the jackpot grows. The minimum cost of a ticket is \$1. Odds of winning a prize, which ranges from a free ticket to the jackpot prize, are 1 in 25. Drawings are held three times a week on Monday, Wednesday and Saturday. Players can choose to add the KickerSM option, for an extra \$1 for every dollar played, for a chance to multiply their prize by four times. This game is only sold in Oregon. Sales of MegabucksSM have been in decline since the introduction of the larger multi-state games Powerball® and Mega Millions®. It is likely that this decline will continue and that the Lottery may consider reevaluating the long-term viability of this game. While MegabucksSM may not have a long future, it is likely that the Lottery will seek to introduce some type of Oregon-only game to replace it when it is retired.

Powerball®. Powerball® is a multi-state draw game that provides for a minimum jackpot of \$40 million. The jackpot prize grows every drawing if it is not won, and sales increase as the jackpot grows. The minimum cost of a ticket is \$2. Overall odds of winning a prize, which ranges from \$4 to the jackpot prize, are 1 in 31.8. Drawings are held twice a week, on Wednesday and Saturday. Players can choose to add Power Play® for an additional \$1 which offers a \$2 million prize when a player matches five white balls. The Power Play® option also offers other set prizes from \$12 to \$40,000.

Mega Millions®. Mega Millions® was introduced in March 2010. It is a multi-state draw game, similar to Powerball®, that provides for a minimum jackpot of \$12 million. The jackpot prize grows every drawing if it is not won, and sales increase as the jackpot grows. The minimum cost of a ticket is \$1. Overall odds of winning a prize, which ranges from \$2 to the jackpot prize, are 1 in 39. Drawings are held twice a week, on Tuesday and Friday. Players can choose to add Megaplier® multiplier for an additional \$1 for every dollar played for a chance to multiply prizes by two to four times with a guaranteed \$1 million prize when a player matches five white balls.

Keno. Keno is played with numbers from 1 to 80. In each game, 20 of the 80 numbers and the Multiplier are randomly selected by the Lottery's computer system. Winning numbers are displayed on monitors located in retailer locations throughout the State. A new game is played every four minutes. Odds of winning a prize vary from about 1 in 3.86 to 1 in 16.63. Players

pick the numbers they think will come up each game. Then they choose how many numbers to try to match each game, from one to up to 10 of the 20 numbers, marking selections on a Keno game slip. The amount won depends upon how many numbers are selected and matched correctly. The top prize is \$1 million, with a minimum cost of \$1 per ticket. Players can multiply their prizes by one, two, three, five or ten times by adding the Multiplier Option for \$1 for each dollar played.

Pick 4SM. Pick 4SM is a daily game in which players match their sets of four numbers against those drawn by the Lottery. Overall odds of winning a prize vary by the match option selected by the player, and prizes range from \$3 to \$5,000, with a minimum cost of \$1 per ticket. There are four Pick 4SM drawings each day. It is likely that Pick 4SM will be eliminated from the traditional game portfolio during fiscal year 2014, as net revenue is minimal.

Win for LifeSM. Win for LifeSM is a draw game in which players match their numbers against those drawn by the Lottery. The game's top prize is \$1,000 per week for life, and the game offers other prizes ranging from \$3 to \$50,000. Overall odds of winning a prize are 1 in 4.63. The minimum cost is \$2 per play and drawings are held three times per week.

Lucky LinesSM. Lucky LinesSM is sold daily and plays like tic-tac-toe. The top prize is a rolling jackpot that starts at \$10,000 and grows until someone wins it. Overall odds of winning a prize are 1 in 3.9, with a minimum cost of \$2 per ticket.

RaffleSM. RaffleSM involves offering 250,000 tickets for sale with a prescheduled future drawing date when winners are announced. The cost of a ticket is \$10 and the game's top prize is a guaranteed \$1 million. The game also offers 10 prizes of \$20,000 and 1,000 prizes of \$100. A St. Patrick's Day RaffleSM and a Thanksgiving Day RaffleSM are planned for calendar year 2013. The Lottery may add a third RaffleSM during 2014.

Video LotterySM. Video LotterySM currently accounts for more than 80 percent of the Oregon Lottery's transfers. Video LotterySM is a product sold on stand-alone Video LotterySM terminals located at retailers that sell alcohol that can be consumed on-premises.

On January 1, 2009, state-wide smoking restrictions went into effect in all public places of employment, including in bars and taverns where Lottery products are sold. Due to the combined impacts of the smoking ban and the effects of the State's economic recession, Video LotterySM sales declined in fiscal year 2009 for the first time since Video LotterySM was introduced. Video LotterySM sales also declined in fiscal year 2010, although to a lesser extent. In fiscal year 2011, the Lottery began to offer games that feature prizes over \$600 for the first time since Video LotterySM was introduced. These new Platinum Spin SeriesTM games, which are available on select Video LotterySM terminals, offer jackpot prizes of up to \$10,000. In fiscal year 2011 and 2012, Video LotterySM sales increased slightly from the prior year. During fiscal year 2013, the Lottery plans to continue updating its game offerings on select terminals, including additional Platinum Spin SeriesTM games, to help maintain the vitality of Video LotterySM sales. See "FINANCIAL OPERATIONS OF THE OREGON STATE LOTTERY—Historical and Forecast Revenues and Projected Coverage."

The Lottery Commission has approved a five-year plan to replace 12,000 Video LotterySM Terminals ("VLT") and its central video gaming network. This new equipment and software are established products within the gaming market and are necessary to avoid obsolescence. This project will allow the Lottery to offer a stable product going forward, as well as new games and features to remain competitive in the gaming market.

The VLT replacement project is projected to reduce available transfers (net proceeds) to the Economic Development Fund for allowable State government operations by \$71.2 million and \$59.2 million in the 2013-15 biennium and 2015-17 biennium, respectively. In fiscal year 2013, Lottery set aside \$46.8 million from existing operating working capital to purchase up to 3,000 new VLTs with initial installations planned for the most populous regions of the State. The remaining \$37.8 million of the \$215.0 million project cost is expected to be funded through administrative savings and capital reserves. The effect of the reduced transfers totaling \$130.4 million that fund a portion of the cost of this project is reflected in the March 2013 Forecast (as defined below). Final replacement of existing terminals is scheduled for fiscal year 2017.

THE OREGON GAMING MARKET

General

Competition for gaming dollars in Oregon exists, as it does in many states. Players have many options besides the Oregon Lottery. They can gamble at Oregon's nine tribal casinos or at casinos in the neighboring states of Washington, Idaho, Nevada and California. There are commercial mini-casinos in Washington that attract Oregon residents. Within Oregon, residents have choices including racetracks (both live and through account wagering), charitable gaming and wagering over the Internet.

According to data provided by ECONorthwest, a regional economics consulting firm, it is estimated that Oregon residents spent \$1.43 billion on gaming in calendar year 2011, with over ten percent of the gambling done outside of State. The Oregon Lottery's share of that was 56.7 percent. The average resident spent about one percent of their personal income (approximately \$371) on gaming in 2011, about the same percentage as in 2009 and 2010.

Measuring the market from the standpoint of gambling within Oregon, ECONorthwest determined that \$1.41 billion was spent at Oregon Lottery retailers, tribal casinos, racetracks, and other in-state establishments during calendar year 2011 or about 0.9 percent more than in 2010. The Oregon Lottery accounted for 60 percent of the total. Data submitted to ECONorthwest from tribes on behalf of the Oregon Tribal Gaming Alliance shows that the nine tribal casinos in Oregon brought in \$467.0 million in gaming revenues. Live, off-track, and internet wagering on races totaled \$10.6 million. In-state charitable gaming was \$12.1 million and illegal gaming was an estimated \$74.6 million.

In terms of trends, spending on gaming by Oregonians rose nearly uninterrupted between 1994 and 2007. It declined in 2008 due to the recession and then again in 2009 when smoking was banned at video lottery retailers. It has increased 1.5 percent since, with the Oregon Lottery outperforming other gaming activities engaged in by residents. In 2011, Oregonians spent 1.7 percent more on Oregon Lottery games than they did in 2010. Spending on Oregon Lottery games in-state by both residents and non-residents rose 4.6 percent over the same period in part because of increased gaming visits along the Washington border.

Competition With Lottery Operations

Oregon Tribal Gaming. The nine tribal casinos authorized to operate in Oregon are subject to the federal Indian Gaming Regulatory Act, 25 U.S.C. § 2701 et seq. ("IGRA"). Under IGRA, before a tribe may establish a gaming operation it must enter into a compact with the state in which the tribe is located governing the nature and extent of permitted gaming operations. In the compact, the state may designate the type and number of games permitted and may restrict the location and number of casinos that a tribe may operate. The State has entered into gaming compacts with all nine federally recognized tribes (or confederations of tribes) in Oregon. Under each compact, the tribe (or confederated tribe) has one site-

specific gambling venue. There can be no assurance that the current or any future Governor's position, or the federal law, on issues involving the location and number of tribal casinos will not change.

Each of the federally recognized tribes (or confederation of tribes) in Oregon has established and is presently operating a casino on tribal lands. The first tribal gaming facility in the State was established in 1992 near the city of Roseburg in southwestern Oregon. That casino is approximately three hours and fifteen minutes driving time from Portland, the largest city in the State. Other tribal casinos are located through-out the State and vary in their proximity to Portland from one hour and fifteen minutes driving time to approximately five and one-half hours driving time.

On April 6, 2005, Governor Kulongoski and the Confederated Tribes of the Warm Springs Reservation of Oregon (the "Warm Springs Tribe") signed a tribal-state compact authorizing tribal gaming in Cascade Locks, Oregon, a city that is approximately a 40-minute drive east of Portland. In the compact, the Warm Springs Tribe agreed to cease all Class III gaming at its current facility before conducting the same type of gaming in Cascade Locks. The Warm Springs Tribe has been engaged for several years in the process of having the off-reservation land taken into federal trust for tribal gaming purposes, a process that must be completed before the compact can become effective. Completion of the fee-to-trust process requires the issuance of a final environmental impact statement and the approvals of the Bureau of Indian Affairs, the Assistant Secretary of Indian Affairs, Department of the Interior, and the Secretary of the Interior. A final environmental impact statement has been published in the Federal Register. In January 2011, the Department of the Interior announced that a compact signed by tribal officers and former Governor Ted Kulongoski had been deemed approved. Completion of the fee-to-trust process would require concurrence from the State's current Governor. Lottery management cannot predict whether Governor Kitzhaber will provide the required concurrence or when the fee-to-trust process will be completed. In February 2012, the Warm Springs Tribe relocated its casino from the Kah-Nee-Ta resort to the main highway, US Highway 26 near the city of Madras, Oregon.

Washington Gaming/Casinos. The State of Washington, which borders Oregon, operates several lottery games and permits both tribal and non-tribal gaming. Washington has licensed four card rooms to operate in La Center, about a forty-minute drive north of Portland. News media have reported that the Cowlitz Indian Tribe plans to build a casino/entertainment/convention complex on approximately 150 acres near La Center. In December 2010, the Bureau of Indian Affairs issued its Record of Decision approving the fee-to-trust transfer on that acreage and determining that the land qualified for gaming as the Cowlitz Indian Tribe's initial reservation. In January 2011, Clark County, the City of Vancouver, Washington and others filed an appeal in the U.S. District Court for the District of Columbia contesting the Record of Decision and seeking declaratory and injunctive relief. In February 2011, the Confederated Tribes of the Grand Ronde filed a similar suit. Both cases are still pending. Lottery management is uncertain of the financial impact to Lottery operations of this proposed Washington casino.

Proposed French Prairie Casino. In 2008-2009, property owners in the French Prairie area of Oregon, approximately 30 minutes south of Portland, were reported to be in negotiations with the Klamath Tribe to place approximately 385 acres of land into trust as a prelude to commercial development. The property owners have indicated publicly that a casino is not currently planned for the property. The Lottery is unable to predict the likelihood of whether such a commercial development will occur with or without a casino or its affect on Lottery revenues.

Proposed Wood Village Casino. In November 2012, Oregon voters overwhelmingly rejected two ballot measures to authorize a private casino in Wood Village, Oregon by a 72 percent to 28 percent margin. The sponsors withdrew their financial support from the measures three weeks before the election. One measure would have amended the Oregon Constitution, and the other would have adopted enabling legislation to permit this private casino in Wood Village which is about 20 minutes east of

Portland on Interstate 84. This proposal has been attempted before in various forms. In 2010, the sponsors qualified only the statutory measure for the ballot, where it was defeated by approximately a two to one vote in all Oregon counties. The Lottery is unable to predict whether the sponsors will try again or the likelihood of success for such proposal, or its effect on Lottery revenues. Such a casino would be non-smoking due to the state's smoking ban. By statute, voters in Wood Village have to vote separately to approve location of a casino there. In 2012, the voters of Wood Village rejected the proposal by a 55 percent to 45 percent margin.

Gray Machines. House Bill 2598 has been introduced in the 2013 Legislative Session (as defined below) to exclude certain amusement devices from the definition of "gray machines." If enacted, this bill would likely have the effect of making certain gray machines that play, emulate, or simulate casino games legal in Oregon, which would in effect allow private video lottery terminals. See "RECENT DEVELOPMENTS—Pending Legislation."

Online (Internet) Gambling. In December 2011, the U.S. Department of Justice issued its new opinion that the 1961 Wire Act only applies to sports betting, reversing its previous position, thus clearing the way for states to otherwise implement Internet gambling on an intra-state basis. The result has been a flurry of activity, including some states that have introduced or enacted legislation to authorize Internet gambling, others to prohibit it, requests for federal action to regulate it on a national basis, and a general lack of consensus on what to do next, even among tribal interests and traditional casinos. The Lottery has adopted a "watch and see" position.

The State continually examines proposed new competitive operations, however, it is not able to estimate the effect of existing, competitive gaming operations on Lottery revenues, and cannot predict the extent to which increases in the revenues of tribal casinos and other existing, competitive gaming operations, or the development of new casinos or other new, competitive gaming operations, including Internet gambling, inside or outside the State of Oregon, will adversely affect Lottery revenues.

FINANCIAL OPERATIONS OF THE OREGON STATE LOTTERY

Forecasting Lottery Revenues

The OEA releases the Lottery revenue forecast in conjunction with the State's quarterly Economic and Revenue Forecast. The Lottery Forecast Committee, comprised of individuals from the Department, Oregon State Lottery, Legislative Revenue Office and Legislative Fiscal Office, reviews each forecast. The forecasts are unbiased, meaning that the Forecast Committee believes that there is an equal probability that the forecast will be over or under projected revenues. The forecast is a current law projection, reflecting any current policies and laws, but not any proposed legislation, pending litigation or ballot measure initiatives. See "RECENT DEVELOPMENTS."

Lottery Expenses

State law limits the Lottery's expenses to no more than 16 percent of its total annual revenues. ORS 461.510 provides that expenses of the Lottery include costs incurred in the "operation and administration of the state lottery and all costs resulting from any contracts entered into for the purchase or lease of goods or services required by the commission including, but not limited to, the costs of supplies, materials, tickets, independent audit services, independent studies, data transmission, advertising, promotion, incentives, public relations, communications, compensation paid to lottery game retailers, bonding for lottery game retailers, printing, distribution of tickets and shares, reimbursing other governmental entities for services provided to the state lottery, transfers to a contingency reserve and for any other goods and services necessary for effectuating the purposes of this chapter." (ORS Chapter

461). See “BASIC FINANCIAL STATEMENTS OF THE OREGON STATE LOTTERY FOR THE FISCAL YEAR ENDED JUNE 30, 2012,” including the notes thereto, in Appendix B.

Statutory Contingency Reserve. State statute allows for the creation of a contingency reserve, and in May 2012, the Lottery Commission approved raising the maximum contingency reserve amount from \$55,000,000 to \$85,000,000 (the “Statutory Contingency Reserve”). The Statutory Contingency Reserve provides working capital for current operations and future investments and is intended, in part, to offset a decline in sales without reducing the amount of net Lottery revenues budgeted to be transferred to the State. The Lottery’s total unrestricted net assets as of June 30, 2012 were \$96,433,288, comprised of \$84,373,616 for the Statutory Contingency Reserve, \$4,642,556 for commitments to purchase gaming software and financial software implementation services, \$5,839,309 of net assets invested in ticket inventory, prepaid expenses and prize reserves and \$1,577,807 for commitments for capital purchases. See “BASIC FINANCIAL STATEMENTS OF THE OREGON STATE LOTTERY FOR THE FISCAL YEAR ENDED JUNE 30, 2012,” including Note 2.D. thereto, in Appendix B.

Funds within the Statutory Contingency Reserve are part of the Lottery’s administrative expenses and therefore are not Unobligated Net Lottery Proceeds that would be available to pay lottery bonds. Lottery expenses, including amounts required to fund the Statutory Contingency Reserve, were deducted from the projected amounts of Net Revenues Available for Transfer shown below in the table entitled “Oregon State Lottery Revenue Bonds Projected Coverage Table Through 2015-17 Biennium.”

Traditional Retailer Contracts. Retailers that contract with the Lottery to sell traditional games are paid a commission based upon a percentage of weekly sales. The commission percentage paid varies by volume of sales from five percent to ten percent. The more the retailers sell, the higher their commissions. The current retailer contract is effective for a term of five years that began on June 27, 2010.

Video LotterySM Retailer Contracts. Retailers that contract with the Lottery to sell Video LotterySM games are paid a commission based upon a percentage of annual net receipts. Video LotterySM retailers have an option to select between a four-tier and a three-tier compensation rate schedule. In each business year during the life of the contract, retailers are able to select one of the two options. Once the annual choice has been made, Video LotterySM retailers earn commissions according to the tier option they have selected for that business year. The commission percentage paid varies by volume of net receipts from 11 percent to 27.5 percent. As the retailers’ net receipts increase during the year, the commission percentage decreases. The current retailer contract is effective for a term of five years that began on June 27, 2010. Retailers have the option of signing an addendum to the contract for authorization to offer Platinum Spin SeriesTM games, which are available on select Video LotterySM terminals.

The statutes and administrative rules under which the Lottery contracts with its retailers are subject to change by the Legislative Assembly and the Lottery Commission. In addition, Lottery may negotiate other changes in its retailer contracts. Therefore, as current contracts expire and new contracts are entered into, the retailer rate of compensation and other matters in retailer contracts may change due to the evolving regulatory and market environment in which the Lottery and its retailers operate.

Historical and Forecast Revenues and Projected Coverage

The following table, derived from Lottery’s annual financial records, sets forth a summary of historical operating revenues of the Lottery. The historical operating revenues of the Lottery presented in the following table differ from the Lottery’s audited financial statements, which are included as Appendix

B to this Official Statement, due to the exclusion of nonoperating revenue of interest and investment income and differences in categorization of certain revenue and expense components.

TABLE 5
OREGON STATE LOTTERY
SUMMARY OF RECENT HISTORICAL REVENUES
(\$ IN MILLIONS)
(FISCAL YEARS ENDED JUNE 30)

	2007-08	2008-09	2009-10	2010-11	2011-12
Traditional Games					
Revenues	\$338.7	\$313.7	\$320.7	\$317.5	\$323.2
Less Retailer Commissions	(29.4)	(26.7)	(27.3)	(26.8)	(27.5)
Less Other Game Expenses	(11.7)	(10.1)	(10.9)	(10.9)	(11.4)
Less Prizes	(220.0)	(205.3)	(206.0)	(206.4)	(221.9)
Operating Income	<u>\$77.6</u>	<u>\$ 71.6</u>	<u>\$76.5</u>	<u>\$73.4</u>	<u>\$62.4</u>
Video Games					
Revenues	\$12,118.4	\$10,582.9	\$9,402.8	\$9,550.5	\$9,704.3
Less Retailer Commissions	(211.1)	(187.0)	(170.9)	(173.7)	(174.1)
Less Other Game Expenses	(1.9)	(1.9)	(2.5)	(1.9)	(1.9)
Less Prizes	(11,223.3)	(9,796.2)	(8,695.9)	(8,830.0)	(8,977.2)
Operating Income	<u>\$682.1</u>	<u>\$597.8</u>	<u>\$533.5</u>	<u>\$544.9</u>	<u>\$551.1</u>
Total Operating Income	<u>\$759.7</u>	<u>\$669.4</u>	<u>\$610.0</u>	<u>\$618.3</u>	<u>\$613.5</u>
Less Admin. & Advertising ⁽¹⁾	(92.6)	(106.3)	(90.9)	(92.5)	(88.0)
Income Before Operating Transfers	<u>\$667.1</u>	<u>\$563.1</u>	<u>\$519.1</u>	<u>\$525.8</u>	<u>\$525.5</u>
Transfers to the Economic Development Fund⁽²⁾	\$(648.4)	\$(592.8)	\$(539.6)	\$(547.0)	\$(523.7)

⁽¹⁾ Amounts shown exclude interest income.

⁽²⁾ The amounts shown as transferred to the Economic Development Fund are based on Lottery's financial statements, which are prepared on an accrual basis of accounting. These amounts may differ from those set forth in the table "Projected Coverage Table Through 2017-19 Biennium" below because those amounts are determined on a cash basis of accounting.

Source: Oregon State Lottery.

The OEA produces a forecast of projected revenues for the biennium generally each March, June, September and December. The OEA released its March 2013 Oregon Economic and Revenue Forecast, on February 15, 2013 (the "March 2013 Forecast"). The Projected Coverage table below sets forth a summary of forecast Lottery revenues and transfers of Lottery revenues based upon the March 2013 Forecast and projected coverage based upon annual debt service after the issuance and delivery of the 2013 Bonds. The State also expects to issue Lottery Revenue Bonds during the 2013-15 biennium to fund projects in the approximate amount of \$92.5 million in fiscal year 2014 and \$62.9 million in fiscal year 2015, each based upon the Governor's proposed budget.

OEA's forecasts are based upon currently available information and upon a wide variety of assumptions. The Lottery's actual results will be affected by numerous factors, including restrictions on smoking in bars and taverns, the level of consumer spending generally, slower return of job growth in the State than forecast in the March 2013 Forecast and other events, including events that are not within the State's control. If any of OEA's assumptions are not realized or if other events occur or fail to occur, the State's financial projections may not be achieved. Especially during this period of economic volatility, it is possible that the Lottery's actual revenues for the 2011-13 biennium will be lower than OEA forecasts.

In the March 2013 Forecast, total Lottery earnings for the 2011-13 biennium are projected to be \$1,079.7 million, a slight increase of \$1.1 million from the December 2012 Oregon Economic and Revenue Forecast, released on November 20, 2012 (the “December 2012 Forecast”).

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The information in the table below is presented on a cash basis of accounting and for categories that differ from the categories in the table above. Lottery expects to issue additional Lottery Revenue Bonds in the future and projected aggregate debt service coverage could change.

TABLE 6
OREGON STATE LOTTERY REVENUE BONDS
PROJECTED COVERAGE TABLE THROUGH 2017-19 BIENNIUM
(\$ IN MILLIONS)⁽¹⁾⁽²⁾

	2011-13 Biennium		2013-15 Biennium		2015-17 Biennium		2017-19 Biennium	
	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	
Revenues Available for Transfer								
Traditional Lottery ⁽³⁾	47.6	61.0	61.6	60.6	61.1	60.6	60.5	
Video Lottery ⁽⁴⁾⁽⁵⁾⁽⁶⁾	479.9	450.1	470.3	468.3	551.5	578.1	606.1	
Other Revenue (Adm Savings)	-	-	-	-	-	-	-	
Total Lottery Available ⁽¹⁾	527.5	511.0	531.9	528.9	612.6	638.8	666.6	
Amount Transferred by Lottery	527.5	511.0	531.9	528.9	612.6	638.8	666.6	
Interest Income on Reserve Funds ⁽⁷⁾	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
Pledged Revenues	527.6	511.1	532.0	529.0	612.7	638.9	666.7	
Debt Service on Outstanding Bonds ⁽⁸⁾	128.6	112.5	100.5	86.4	86.4	86.4	91.5	
Debt Service on 2013 Bonds	-	14.1	24.9	23.1	23.3	23.3	14.8	
Debt Service on Additional Bonds ⁽⁹⁾	-	-	5.7	8.8	14.4	14.4	14.4	
Total Debt Service	128.6	126.6	131.1	118.3	124.1	124.1	120.6	
Projected Aggregate Debt Service Coverage (Times)	4.10x	4.04x	4.06x	4.47x	4.94x	5.15x	5.53x	

⁽¹⁾ Totals may reflect rounding.

⁽²⁾ This Projected Coverage Table is presented on a cash basis method of accounting.

⁽³⁾ Includes unclaimed prizes of \$5.0 million for each fiscal year.

⁽⁴⁾ Video Lottery revenues available for transfers include the portion dedicated to county economic development.

⁽⁵⁾ Video Lottery is a registered service mark of the Lottery.

⁽⁶⁾ Video Lottery revenues net of VLT replacement costs anticipated as follows: FY2014=\$35.5 million; FY2015=\$35.7 million; FY2016=\$59.2 million.

⁽⁷⁾ Interest income is based upon investment earnings, on previously issued Bonds.

⁽⁸⁾ Excludes the Refunded Bonds.

⁽⁹⁾ Assumes bond issuance in 2013-15 biennium based upon Governor's proposed budget to fund projects in amount of \$92.5 million in FY 2014 and \$62.9 million in FY 2015.

Source: Department of Administrative Services.

Annual Debt Service on the Lottery Revenues Bonds

The following table sets forth the annual debt service requirements for the Outstanding Lottery Bonds and for the 2013 Bonds.

TABLE 7
DEBT SERVICE REQUIREMENTS
OUTSTANDING OREGON STATE LOTTERY REVENUE BONDS

Fiscal Year Ending June 30	Outstanding Lottery Bonds ⁽¹⁾			2013 Bonds			Total Lottery Bond	
	Principal	Interest	Bond Debt Service	Principal	Interest	Bond Debt Service	Debt Service	
2013	\$ 74,525,000	\$ 54,087,601	\$ 128,612,601	--	--	--	\$ 128,612,601	
2014	64,940,000	47,573,372	112,513,372	\$ 7,370,000	\$ 6,737,002	\$ 14,107,002	126,620,374	
2015	56,010,000	44,448,126	100,458,126	17,875,000	7,011,396	24,886,396	125,344,522	
2016	44,385,000	42,058,361	86,443,361	16,150,000	6,925,596	23,075,596	109,518,957	
2017	46,385,000	40,049,172	86,434,172	16,465,000	6,799,303	23,264,303	109,698,476	
2018	48,485,000	37,960,530	86,445,530	16,640,000	6,622,634	23,262,634	109,708,164	
2019	55,690,000	35,783,002	91,473,002	8,370,000	6,397,495	14,767,495	106,240,497	
2020	55,710,000	33,251,327	88,961,327	8,510,000	6,260,227	14,770,227	103,731,554	
2021	58,315,000	30,642,756	88,957,756	8,725,000	6,046,199	14,771,199	103,728,955	
2022	61,045,000	27,922,256	88,967,256	9,095,000	5,679,024	14,774,024	103,741,280	
2023	63,945,000	25,022,395	88,967,395	9,490,000	5,282,314	14,772,314	103,739,709	
2024	67,075,000	21,886,751	88,961,751	9,915,000	4,854,854	14,769,854	103,731,605	
2025	70,500,000	18,458,710	88,958,710	10,365,000	4,404,329	14,769,329	103,728,039	
2026	76,220,000	14,878,055	91,098,055	8,715,000	3,929,444	12,644,444	103,742,499	
2027	70,195,000	10,986,543	81,181,543	9,150,000	3,493,694	12,643,694	93,825,236	
2028	53,865,000	7,485,700	61,350,700	9,610,000	3,036,194	12,646,194	73,996,894	
2029	42,885,000	4,797,650	47,682,650	10,080,000	2,563,850	12,643,850	60,326,500	
2030	28,950,000	2,653,400	31,603,400	10,485,000	2,160,650	12,645,650	44,249,050	
2031	20,530,000	1,157,025	21,687,025	11,010,000	1,636,400	12,646,400	34,333,425	
2032	1,765,000	88,250	1,853,250	11,560,000	1,085,900	12,645,900	14,499,150	
2033	--	--	--	12,135,000	507,900	12,642,900	12,642,900	
Totals ⁽²⁾	\$1,061,420,000	\$501,190,982	\$1,562,610,982	\$221,715,000	\$91,434,404	\$313,149,404	\$1,875,760,386	

⁽¹⁾ "Outstanding Lottery Bonds" includes debt service due on October 1, 2012 and April 1, 2013 on all of the Lottery Revenue Bonds, and excludes debt service on all of the Refunded Bonds that are expected to be refunded by the 2013 Refunding Bonds.

⁽²⁾ Totals may not reflect rounding.

Source: Department of Administrative Services.

RECENT DEVELOPMENTS

Actions of the Legislative Assembly

2012 Legislative Session. Actions taken during the 2012 session of the Legislative Assembly, which concluded on March 5, 2012 (the “2012 Legislative Session”) included revising the balanced budget to reflect a decline in projected General Fund Revenues of approximately \$305 million between the State Economic and Revenue Forecast that was released on May 12, 2011 (the “2011 Close of Session Forecast”) and the State Economic and Revenue Forecast released on February 8, 2012 (the “March 2012 Forecast”). The Legislative Assembly also restored certain program reductions included in the initial Legislatively Adopted Budget for the 2011-13 biennium (the “LAB”) adopted during the 2011 session of the Legislative Assembly. After the 2012 Legislative Session, the combined General Fund and Lottery Revenues budget totaled \$14.786 billion. Other legislation was enacted during the 2012 Legislative Session, including House Bill 4164 to create a health insurance exchange. Through the actions taken in the 2012 Legislative Session, the combined General Fund and Lottery Fund ending balance was projected to be approximately \$115 million. Based on the March 2013 Forecast, the General Fund ending balance is projected to be \$382.1 million prior to any future action taken by the Emergency Board or Legislative Assembly which is currently in session. Based on the March 2013 Forecast, the projected ending balances in the Oregon Rainy Day Fund (the “Rainy Day Fund”) and the Education Stability Fund (the “ESF”) are \$61.8 million and \$7.6 million, respectively. See “—Governor’s Balanced Budget Proposal for 2013-15 Biennium.”

Combined General Fund and Lottery Fund expenditures in the LAB for the 2011-13 biennium are primarily divided among the agencies and program areas described in Table 8 below.

**TABLE 8
2011-13 BIENNIUM LEGISLATIVE ADOPTED BUDGET**

Amount	Agency/Program Area
\$7.395 billion	Education, including: \$5.714 billion for the K-12 State School Fund \$861 million for the public universities \$425 million for community colleges and workforce programs \$395 million for other education programs (including early learning)
\$3.874 billion	Human Services
\$2.549 billion	Public Safety/Judicial
\$300 million	Natural Resources
\$174 million	Economic and Community Development
\$494 million	All Other Program Areas

Source: 2011-13 LAB.

December 14, 2012 Special Session. To further an economic development opportunity, the Governor called the Legislative Assembly into a one day special session to approve legislation authorizing the Governor and Department of Revenue to enter into agreements with certain qualifying companies that invest at least \$150 million within five years in an Oregon capital project and hire at least an additional 500 full time employees. Under an agreement authorized by the legislation, a qualifying company would be able to use its sales only in Oregon to determine its Oregon income tax, as provided under current Oregon law, for the term of the agreement.

2013 Legislative Session. The 77th Legislative Assembly convened its 2013 Legislative Session on the second Monday of January 2013 (the “2013 Legislative Session”). Actions that the Legislative Assembly is expected to take during the 2013 Legislative Session include adopting a balanced budget for

the 2013-15 biennium and revising, if necessary, the balanced budget for the 2011-13 biennium to reflect any declines in General Fund Revenues in the March 2013 Forecast.

Governor’s Balanced Budget Proposal for 2013-15 Biennium

The Governor’s Balanced Budget Proposal. The Governor released his proposed 2013-15 budget on November 30, 2012 for consideration by the Legislative Assembly during the 2013 Legislative Session (the “Governor’s Balanced Budget” or the “Governor’s Budget”). The budget assumes \$16.374 billion in available resources and proposes \$16.244 billion in expenditures, leaving ending fund balances of approximately \$130 million. The proposed budget relies in part on savings from proposed program changes in Public Employees’ Retirement System benefits, and sentencing requirements affecting prison populations, as well as continuation of increases to certain health care provider taxes all of which must be approved by the Legislative Assembly.

The proposed changes to the Public Employees Retirement System would limit annual benefits cost of living increases and eliminate a tax benefit for out-of-state retirees based on Oregon income tax. Savings from these two measures are projected to reduce the required employer contribution amount to PERS from all employers by approximately \$865 million for the 2013-15 biennium, of which \$83.2 million is General Fund/Lottery Fund state agencies’ PERS contribution savings.

The Governor’s Budget also assumes prison populations will remain stable (flat) throughout the 2013-15 biennium based on anticipated policy change recommendations from the Governor’s Commission on Public Safety. Savings from maintaining a level prison population are projected to be \$35.6 million in 2013-15, increasing to \$190 million in the 2021-23 biennium. The Governor’s Budget directs \$32 million of the projected savings to community-based services to prevent criminal behavior, such as alcohol and drug treatment and mental health services.

The Governor’s Budget assumes \$119 million in savings by health care programs funded by the State due to improved care delivery, lower utilization rates and more effective services. The General Fund is expected to realize \$46 million of the anticipated savings in the 2013-15 biennium. Cumulative savings are expected to total \$11 billion by the end of the 2021-23 biennium.

The Governor’s Budget for combined General Fund and Lottery Fund expenditures is divided among six major program areas described in Table 9 below.

**TABLE 9
2013-15 BIENNIUM GOVERNOR’S BALANCED BUDGET**

Amount	Agency/Program Area
\$8.044 billion	Education, including: \$6.151 billion for the K-12 State School Fund \$1.4 billion for the Post-Secondary Education \$493 million for other education programs (including early learning)
\$4.397 billion	Human Services
\$2.758 billion	Public Safety/Judicial
\$337 million	Natural Resources
\$170 million	Economic and Community Development
\$538 million	All Other Program Areas

Source: 2013-15 Governor’s Balanced Budget.

The Governor’s Balanced Budget is subject to review and modification by the Legislative Assembly during the 2013 Legislative Session. If the Legislative Assembly does not enact some of the proposed program and policy changes on which the Governor’s Budget is based, other measures will be

required to balance the budget including reducing proposed spending levels, increasing revenues or some combination thereof. Moreover, proposed changes or policy assumptions in the Governor's Budget, such as changes to the Public Employees' Retirement System, are subject to legal challenges. If any of the changes or assumptions incorporated into the 2013-15 LAB budget do not survive legal challenges, the Legislative Assembly may be required to re-balance the budget. The State cannot predict whether the Legislative Assembly will enact any of the proposals in the Governor's Budget, the potential impact on the operations or finances of the State of any proposed legislation, or whether any legislation, if adopted, would withstand any legal challenges.

Pending Legislation

Each legislative session, many bills are introduced that could affect the finances or operations of the State, including without limitation the Lottery. The State cannot predict whether any of the proposed bills described below or any other legislation may be enacted in a form that would affect the revenues or operations of the State in general or the Lottery specifically.

Bills Related to the Oregon State Lottery. Bills have been introduced, and may continue to be introduced, during the 2013 Legislative Session that may affect the operations of the Lottery or projected levels of future Unobligated Net Lottery Proceeds. For example:

House Bill 2163 ("HB 2163") would require the Lottery to develop a comprehensive policy, and take other steps, to minimize the risks and mitigate the harms of lottery games and marketing practices associated with the Lottery and specifically address related mental health and addiction issues. If HB 2163 is enacted as introduced and steps are taken by the Lottery to reduce problem gambling, there may be some reduction in projected Unobligated Net Lottery Proceeds available to pay debt service on Lottery Revenue Bonds.

House Bill 2167 ("HB 2167") would limit the amount of revenue generated by the Lottery because it would require the Lottery to attempt to produce the same amount of Unobligated Net Lottery Proceeds in all future biennia as it produced in the 2011-13 biennium (the "2011-13 Amount"). As currently drafted, HB 2167 would require any revenues in excess of the 2011-13 Amount be deposited in a new "Oregon Lottery Rainy Day Fund" that would be created pursuant to HB 2167. The State anticipates that if HB 2167 is enacted as introduced, it would adversely affect the forecast of future Lottery revenues and projected coverage as shown in Table 6 above.

House Bill 2598 ("HB 2598"), if enacted as introduced, would modify the definition of a "gray machine" in Oregon Law. Under current Oregon Law, gray machines include electrical devices that play, emulate or simulate a casino game, bingo or keno. Possession of a gray machine has been unlawful in Oregon since December 1991. HB 2598 would exclude from the definition of gray machines, any device that is played for amusement purposes and that plays, emulates or simulates a casino game, but does not accumulate credits or return to the operator or player of the device anything but free additional games or plays. There is evidence that gray machines of this type, that would be allowable under HB 2598, have been extensively used in the past for unlawful gambling activities at bars and taverns. To the extent that this practice would be resumed and would remain undetected by law enforcement, there is a potential that Video LotterySM sales could be adversely affected. The Lottery has stated that while the impact of HB 2598 could be significant, it is not possible to calculate with any degree of certainty.

Legislation has also been introduced that would dedicate additional portions of the Unobligated Net Lottery Proceeds to particular purposes, such as funding alternate modes of transportation and providing services to veterans. In some instances, the proposed legislation includes referrals to the voters to include such allocation requirements in the state constitution. See "—Initiatives, Referendum and

Referrals” below and APPENDIX A—“GENERAL INFORMATION RELATING TO THE STATE OF OREGON—INITIATIVE PETITIONS, LEGISLATIVE REFERRALS AND REFERENDUM PETITIONS.”

As described above, Article XV, Section 4(4)(d) of the Oregon Constitution requires the Legislative Assembly to appropriate net proceeds from the Lottery to repay Lottery Revenue Bonds before appropriating net proceeds from the Lottery for any other purpose. The State therefore expects that, if any proposed legislation were to be enacted into law, it would not prevent the State from collecting Unobligated Net Lottery Proceeds sufficient to pay all Lottery Revenue Bonds. However, if for some reason Unobligated Net Lottery Proceeds were not sufficient to pay Lottery Revenue Bonds, the Lottery Revenue Bonds are also secured by the “moral obligation” of the State, as described above. See “SOURCES OF PAYMENT AND SECURITY—Constitutional Requirement to Pay Lottery Revenue Bonds” and “— Reserve Account and State Moral Obligation—*Maintenance of the Reserve Account and State Moral Obligation.*”

Bills Related to PERS. As described above in the discussion of the Governor’s Recommended Budget for the 2013-15 biennium, the Governor has proposed program changes to the PERS System. If these proposed changes are approved by the Legislative Assembly during the 2013 Legislative Session and survive legal challenges, if any, the changes are currently estimated to reduce the System’s actuarial accrued liability by approximately \$4.66 billion. See “RECENT DEVELOPMENTS—Pension Benefit Programs” for additional discussion of the PERS System.

Economic Information

According to the March 2013 Forecast, the OEA projects General Fund revenues to be \$14.122 billion for the 2011-13 biennium. This represents an increase of approximately \$161 million from the December 2012 Forecast and an increase of approximately \$90 million from the 2011 Close of Session Forecast.

In its March 2013 Forecast, OEA notes that in 2012, Oregon’s economic performance was very similar to both 2010 and 2011 before it. In each case there have been some cautious hopes for stronger growth and more jobs as momentum was building near the end of the previous year. However, each time the regional economy has encountered headwinds that slowed growth near mid-year. The usual suspects have been flare-ups in the ongoing European recession and sovereign debt crisis, weak housing-related industries and cuts at all levels of government. The end result in each of the past three years has been slow, lackluster growth.

OEA observed in the March 2013 Forecast that employment in Oregon continued to increase throughout 2012, approximately in-line with the gains seen at the U.S. level. While the gains continued to be slow and subdued, 2012 was somewhat better than 2011 as employment growth picked up from 1.2 percent to 1.4 percent. The unemployment rate in Oregon was 8.4 percent in December 2012, down from 9.0 percent in December 2011.

Lottery revenues in the March 2013 Forecast for the 2011-13 biennium are expected to total \$1.080 billion, \$1.1 million more than was projected in the December 2012 Forecast. The combined General Fund and Lottery Fund revenues are projected to be \$16.522 billion in the 2013-15 biennium.

Effects of General Economic Situation and Future Federal Government Actions. As described herein and in Appendix A, economic conditions have had, and may continue to have, significant effects on the finances and operations of the State and its revenues and no assurance can be given that further impacts will not occur. Federal statutory and regulatory changes, administrative rulings, interpretations of

policy, determinations by fiscal intermediaries and funding restrictions, whether taken as part of federal budgetary actions, including the series of automatic federal deficit resolution spending cuts commonly known as sequestration, or otherwise, may reduce funds available for, or increase costs of State programs. At the same time, the federal government may maintain or increase the responsibilities of the State in certain areas, notwithstanding reductions lower federal funding for such activities. It is difficult for the State to predict the occurrence of such economic or federal government changes or the potential effect on the finances and operations of the State and its revenues until the extent and duration of such changes are known.

Reserve Funds

The State has two budgetary reserve funds, the ESF and the Rainy Day Fund, that may be drawn on in the event of General Fund revenue shortfalls or economic downturns within a biennium subject to certain restrictions that are described in APPENDIX A—“GENERAL INFORMATION RELATING TO THE STATE OF OREGON—REVENUES—Reserve Funds.”

As presented in the March 2013 Forecast, as of the end of the 2011-13 biennium, the projected ending balance of the Rainy Day Fund is \$61.8 million and the projected ending balance of the ESF is \$7.6 million. The projected ending balance of the ESF reflects the net available amount in the ESF, exclusive of funds held in the Oregon Growth Account that may be illiquid. The projected ESF ending balance also reflects the staged transfers from the ESF totaling approximately \$182.9 million, as approved by the Legislative Assembly in the 2011-13 biennium budget. These projected ending balances are based upon information available at the time of preparation of the March 2013 Forecast and upon certain assumptions set out in the forecast. In addition to the reserve balances, the State is also projected to have a General Fund ending balance for the 2011-13 biennium of approximately \$382.1 million. The actual amount of reserves and ending balance will be affected by national and State economic activity and other events, including events that are not within the State’s control.

Pension Benefit Programs

The State is one of many participants in the statewide Oregon Public Employees’ Retirement System (“PERS”). The State participates in three retirement pension benefit programs provided through PERS that are commonly referred to as Tier 1, Tier 2, and the Oregon Public Service Retirement Plan (“OPSRP”). A majority of local governments in Oregon and the State participate in PERS. For a description of these retirement benefit programs, see APPENDIX A—“GENERAL INFORMATION RELATING TO THE STATE OF OREGON—PENSION AND POST EMPLOYMENT BENEFITS.” Oregon statutes require an actuarial valuation of PERS by an actuary, at least every two years. Under current practice, actuarial valuations are performed annually, but only valuations as of the end of each odd-numbered year are used to determine annual required employer contribution rates. The actuarial valuations use the Projected Unit Credit actuarial cost method, as adopted by the PERS Board, and the market value method to determine asset valuation, without smoothing, and an assumed investment rate of 8 percent. Valuations are released approximately one year after the valuation date. The current PERS actuary is Milliman, Inc. (“Milliman”). See APPENDIX A—“GENERAL INFORMATION RELATING TO THE STATE OF OREGON—PENSION AND POST EMPLOYMENT BENEFITS—System Pension Programs—*System Pension Plan Asset and Liabilities Valuations.*”

Funding Levels and State Contributions. The most recent actuarial valuation report of the assets and liabilities of the statewide PERS as of December 31, 2011 (the “2011 System Valuation”) was released by Milliman in November 2012. In October 2012, the State’s individual 2011 actuarial valuation report (the “2011 State Report”) was released, which includes information regarding the State’s share of the PERS unfunded actuarial accrued liability as of December 31, 2011. Table 10 below provides

summary information and a comparison of the statewide PERS (as reported in the 2011 System Valuation) and State valuations. See APPENDIX A—“GENERAL INFORMATION RELATING TO THE STATE OF OREGON—PENSION AND POST EMPLOYMENT BENEFITS—System Pension Programs—*System Pension Plan Asset and Liabilities Valuations.*”

The State’s actuarial valuation report as of December 31, 2009 (the “2009 State Report”) includes combined employer contribution rates for the current 2011-13 biennium for the State. The 2011 State Report includes combined employer contribution rates for the 2013-15 biennium for the State. See APPENDIX A—“GENERAL INFORMATION RELATING TO THE STATE OF OREGON—PENSION AND POST EMPLOYMENT BENEFITS—State Employer Contribution Rates” and “—State Contributions.” The 2011-13 employer contribution rates were derived using a rate stabilization methodology designed to cap rate increases and reduce large fluctuations in employer contribution rates; such rate increases are shifted to future biennia, including the 2013-15 biennium. Moreover, the 2011 System Valuation states that the Tier 1/Tier 2 rate pools have a calculated contribution rate, prior to the application of the rate stabilization methodology, which will exceed the maximum rate allowed by the rate cap. The rate cap will reduce the Tier 1/Tier 2 rate pools for the 2013-15 biennium by 2.2%. If all actuarial assumptions are met in 2012 and 2013, that deferred increase would be reflected in contribution rates for the 2015-2017 biennium. For information regarding the contribution rate stabilization method and the State’s employer contribution rates, see APPENDIX A—“GENERAL INFORMATION RELATING TO THE STATE OF OREGON—PENSION AND POST EMPLOYMENT BENEFITS—System Pension Programs—*System Pension Plan Asset and Liabilities Valuations*” and “—*State Employer Contribution Rates.*”

TABLE 10
SUMMARY OF SYSTEM AND STATE FUNDING LEVELS
(\$ In Millions)

Calendar Year	SYSTEM ⁽¹⁾				STATE			
	Actuarial Value of Assets ⁽²⁾	Actuarial Value of Liabilities	Unfunded Liability	Funded Ratio ⁽³⁾	Actuarial Value of Assets ⁽⁴⁾	Actuarial Value of Liabilities	Unfunded Liability	Funded Ratio ⁽³⁾
2007	\$59,327.8	\$52,871.2	\$ (6,456.6)	112.2%	\$15,769.3	\$13,611.1	\$(2,158.2)	115.9%
2008	43,520.6	54,259.5	10,738.9	80.2	11,600.1	14,036.0	2,435.9	82.6
2009	48,729.2	56,810.6	8,081.4	85.8	13,014.7	14,771.7	1,757.0	88.1
2010	51,583.6	59,329.5	7,745.9	86.9	13,529.8	15,116.4	1,586.5	89.5
2011	50,168.0	61,198.0	11,030.0	82.0	13,208.2	15,660.0	2,451.8	84.3

⁽¹⁾ System funding levels composed of Tier 1 and Tier 2 and Oregon Public Service Retirement Plan (“OPSRP”) pensions but excluding retiree healthcare subsidies of RHIA and RHIPA.

⁽²⁾ Includes proceeds of pension bonds issued by Oregon local governments and the State.

⁽³⁾ Funded ratios are based on “mark to market” accounting procedures.

⁽⁴⁾ Includes State Pension Bonds proceeds.

Source: PERS.

In spring 2013, the PERS Board expects to consider lowering the assumed investment rate of return; preliminary analysis suggests that lowering this assumed rate from the current rate of 8 percent to 7.5 percent would increase the System’s actuarial accrued liabilities by \$2.7 billion.

Other Post-Employment Benefits

In addition to the pension benefits provided through PERS, the State provides healthcare benefits (medical, vision and dental) through two PERS health insurance programs and through the Oregon Public Employees’ Benefit Board (“PEBB”). At the time of retirement, State employees can choose whether to obtain post-employment benefits through PERS or through PEBB. Approximately 52,944 retirees received healthcare benefits through PERS health insurance programs and approximately 2,500 retirees

receive healthcare benefits through PEBB. See APPENDIX A—“GENERAL INFORMATION RELATING TO THE STATE OF OREGON—PENSION AND POST EMPLOYMENT BENEFITS” for information regarding the State’s obligations to provide benefits through PEBB.

Initiatives, Referendum and Referrals

The Oregon Constitution, Article IV, Section 1, reserves to the people of the State (1) the initiative power to amend the Oregon Constitution or to enact State legislation by placing measures on the statewide general election ballot for consideration by the voters and (2) the referendum power to approve or reject at an election any act passed by the Legislative Assembly that does not become effective earlier than 90 days after the end of the legislative session. The Legislative Assembly may also refer an act to the voters for approval or rejection. See APPENDIX A—“GENERAL INFORMATION RELATING TO THE STATE OF OREGON—INITIATIVE PETITIONS, LEGISLATIVE REFERRALS AND REFERENDUM PETITIONS” for additional information on the election requirements for these actions.

LITIGATION

No Litigation Challenging the 2013 Bonds

No litigation is pending against the State or, to the knowledge of the officers of the State charged with issuing the 2013 Bonds, threatened in any court or other tribunal of competent jurisdiction, state or federal, that has a reasonable probability of success in any way (1) restraining or enjoining the issuance, sale or delivery of the 2013 Bonds, (2) questioning or affecting the validity of the 2013 Bonds or (3) questioning or affecting the validity of any of the proceedings for the authorization, sale, execution or delivery of the 2013 Bonds.

Members of the public and advocacy groups from time to time assert that they intend to file a legal action against the State challenging certain programs, laws or actions that the State or its officers or agencies have taken. Because the State cannot be certain as to whether such actions will actually be filed, the legal assertions that may be made in a potential action or the remedy sought in terms of the amount of damages or performance requested of the State, the State includes as threatened litigation only situations in which the State is engaged in active settlement negotiations with a person or advocacy group in order to pre-empt filing of a lawsuit.

The State discloses only pending or threatened litigation which the State has determined may have a materially adverse impact on the State’s financial position in relation to the bonds offered for sale; for the 2013 Bonds, the current level of materiality involves litigation where the damages or performance sought has a reasonable probability of imposing liability of \$50 million or more against the State’s General Fund.

Community Mental Health Investigation.

The State is engaged in discussions with the United States Department of Justice (“USDOJ”) concerning the State’s community mental health programs. The USDOJ is investigating whether the State’s programs comply with the federal Americans with Disabilities Act. The investigation is ongoing, and the State has no specific information on the cost of implementing any changes that may result from the investigation. The State expects that if the USDOJ determines there are violations of federal law, the USDOJ will issue written findings that specify the nature of any violations, and the State will then be in a better position to estimate the costs to remedy any asserted violations. In the mean time, the State and USDOJ have entered into a four-year agreement, under which the State will, among other things, share

data and will discuss system gaps and outcomes. It is possible that the costs of changes to the State's community mental health programs could reach or exceed \$50 million.

Past Litigation Involving the Lottery

Oregonians for Gambling Awareness v. State of Oregon

A group known as "Oregonians for Gambling Awareness" filed an action in 2001 challenging the constitutionality of the 1984 initiative measure that amended the Oregon Constitution to authorize establishment of the Lottery. The Oregon Constitution prescribes how it may be amended, and provides that any amendments by initiative must "embrace one subject only and matters properly connected therewith."

The trial court dismissed the case because it was brought more than ten years after the adoption of the initiative measure, thus violating the State's statute of ultimate repose. The plaintiff group withdrew their appeal before the Oregon Supreme Court decided this issue. The same plaintiffs may not bring another lawsuit challenging the initiative measure that established the Lottery. Until the Oregon Supreme Court decides whether the statute of ultimate repose applies to initiated Constitutional amendments, other plaintiffs may bring similar lawsuits. The State is not aware of any such pending or threatened litigation.

If a challenge brought in the future were successful, the State would no longer be authorized to operate the Lottery and the Lottery would no longer generate revenues to pay lottery bonds. In such an event, the State's covenant to operate the Lottery and certain related covenants, described herein under "CERTAIN PROVISIONS OF THE MASTER INDENTURE," would not be enforceable. However, the State's moral obligation would remain. See "SOURCES OF PAYMENT AND SECURITY—Reserve Account and State Moral Obligation." Bond Counsel expresses no opinion regarding the validity of the State Lottery under challenges based on the legal theories presented in the "Oregonians for Gambling Awareness" case. See the proposed forms of Bond Counsel's opinions in Appendix D.

Claims Against the State of Oregon Exceeding \$50 Million

Tobacco Cases

Estate of Williams, Estate of Schwarz v. Philip Morris, Inc.

The State and Philip Morris, Inc. ("Philip Morris"), together with a number of other states and U.S. territories (the "Settling States") and tobacco manufacturers, are parties to a Master Settlement Agreement (the "MSA"). Under the terms of the MSA, the State expects to receive periodic payments from the tobacco manufacturers that will total approximately \$2 billion between the settlement date and the year 2025. Separate tort actions were filed in the State circuit court against Philip Morris on behalf of two decedents claiming their deaths from tobacco-related causes were due to the actions of Philip Morris. The plaintiffs prevailed in the trial court. The estate of Williams was awarded approximately \$80 million in punitive damages. The estate of Schwarz was awarded approximately \$100 million in punitive damages.

By statute, the State is entitled to 60 percent of all punitive damages awards. Philip Morris appealed the punitive damages awards in both cases to the Oregon appellate courts and the United States Supreme Court. The appellate courts upheld the awards through several appeals. Philip Morris paid the Williams judgment in February 2012, and has not sought an offset against MSA payments that have come due since then, nor has it indicated it intends to seek such an offset in the future. The amount of damages

in the Schwarz case was reconsidered in the trial court and reduced to \$25 million. Philip Morris has stated that it expects to continue to appeal the Schwarz case.

Non-participating Manufacturer Claims

The MSA contains a number of payment adjustment mechanisms. The non-participating manufacturers' adjustment ("NPM Adjustment") reduces the annual payments required of the manufacturers participating in the MSA ("Participating Manufacturers" or "PMs") when the following three conditions are met: (1) loss of market share by the PMs, (2) a finding by economic consultants that the MSA was a significant factor in the PMs' market share loss, and (3) a finding that the Settling State in question did not enact or diligently enforce model escrow legislation required by the MSA.

To date, the first two conditions have occurred for payment years beginning in 2003. As a result, the PMs have paid part of their annual payments into a disputed payment account. Between 2006 and 2012, Oregon has received approximately 8 to 15 percent less in each year than its anticipated payment of approximately \$75 million to \$90 million. It is possible that the PMs will withhold more from the State's payments in the future.

Oregon is currently litigating with the PMs whether the State "diligently enforced" its model escrow legislation in 2003. In April 2006, the State filed suit in Oregon's Multnomah County Circuit Court seeking full payment from the PMs. The court found that the dispute is subject to nationwide arbitration in which the Settling States are on one "side" of the dispute and the PMs are on the other "side." An arbitration panel has been formed and the PMs and the Settling States are working toward arbitration of the issues in this case. If it is determined in the arbitration that the State did not diligently enforce its model escrow statutes, the full amount of the yearly payment at issue could be deducted by the PMs from the next annual payment that the State is scheduled to receive.

Potential Superfund Site Liability

Two State agencies are involved in a confidential, non-judicial mediation process that will result in an allocation of costs associated with the investigation and cleanup of sediment contamination in the Portland Harbor, a 10-mile stretch of the lower Willamette River area that the U.S. Environmental Protection Agency (the "EPA") has listed as a Superfund site under the federal Superfund law ("CERCLA"). Over 200 parties, private companies and public entities, may eventually be found liable for a share of the costs related to investigation and clean-up of the Portland Harbor Superfund Site.

The Oregon Department of Transportation ("ODOT") and the Oregon Department of State Lands ("DSL") have received General Notice Letters from the EPA informing them that the State, by and through those agencies, is a potentially responsible party ("PRP") under CERCLA for cleanup costs at the site. The EPA's letter to ODOT asserts that ODOT may incur CERCLA liability for hazardous substances in stormwater draining into the Portland Harbor from ODOT-owned highways and bridges. As to DSL, the EPA's letter charges that the State, through DSL and the State Land Board, is a PRP because of releases of hazardous substances by third parties on submerged and submersible leased lands owned by the State and administrated by DSL.

It is too early in the EPA's remedial action process to estimate the total amount of cleanup costs that will be shared by liable parties; however, the potential amount of cleanup costs is discussed in a draft Feasibility Study delivered to EPA on March 30, 2012. The draft Feasibility Study outlines eleven alternative options for cleaning up the Portland Harbor Superfund Site with a range of costs from \$269 million to \$1.8 billion depending on which alternative is adopted by EPA. In addition, it is too early to estimate the proportionate share of liability for cleanup costs, if any, that may ultimately be assessed

against either of the State agencies involved in the allocation process. When the mediation will end is not known, but it may be as late as 2017.

The Portland Harbor Superfund will also involve a separate allocation of liability for injuries to natural resources caused by contamination at the site, which is an additional type of recovery under the Superfund law known as natural resource damages (“NRD”). This NRD claim is asserted against all PRPs, including ODOT and DSL, by the Portland Harbor natural resource trustees, a group composed of five tribes, two federal agencies and the State, acting through its trustee, the Oregon Department of Fish and Wildlife. The trustees have initiated a cooperative injury assessment process funded by twenty-five parties including the State, which will provide an opportunity for early settlement of the NRD claim. The NRD process will result in an allocation of liability for NRD damages at the same time as the allocation of liability for remedial costs. It is too early to evaluate what, if any, share of liability either ODOT or DSL may ultimately bear for this NRD claim.

Another potential financial risk for the State involves the Superfund’s orphan share obligations. When settling its claim against PRPs, EPA may agree to pay some portion of the financial liability assigned to those parties who are insolvent or defunct, and unaffiliated with any other viable liable party (the “Orphan Share”). EPA may thereafter request, as authorized by the Superfund law, that the State pay 10 percent of any orphan share payment made by EPA, plus the costs of continuing operation and maintenance of the orphan site(s). At this time, whether the State would enter into such an agreement and the amount the State would pay are unknown, and will depend on the outcome of negotiations with the EPA.

Multistate Tax Compact

A case is pending in the Oregon Tax Court that challenges the State’s departure from provisions in the Multistate Tax Compact (the “Compact”) when apportioning income attributable to corporations operating in more than one state. Under the Compact, the income of a multi-state corporation is apportioned to a state using an equally weighted three-factor formula. The formula compares in-state payroll, property and sales to the corporation’s overall payroll, property and sales. Many states, including Oregon, have diverged from equally weighting each of the three elements to determine the amount of income in a particular state. Currently, the State uses only sales in Oregon and does not use the other two factors to apportion corporate income. See APPENDIX A—“REVENUES—General Fund Revenues – Taxes – Corporate Excise and Income Taxes.” The taxpayer in *Health Net v. Dept. of Revenue* asserts that the Compact is a binding contractual arrangement that cannot be unilaterally changed by a participating state. Therefore, the taxpayer argues, the State must allow taxpayers to apportion multi-state corporate income based on the formula in the Compact. The amount at issue in *Health Net* is approximately \$350,000. If the taxpayer prevails, however, and a court determines that the State must allow the Compact formula, other corporations may seek refunds based on the same theory and the State may collect less corporate income tax in the future. The State has insufficient data to accurately predict the amounts it could be required to refund or the overall impact on future revenues. Those amounts would depend on the circumstances of individual corporations that may, or may not, seek refunds and actions the Legislative Assembly may take in response to an adverse ruling. Such actions could include withdrawing from the Compact or adopting legislative changes to apportionment statutes. Preliminary estimates, however, indicate that potential maximum refund liability and reductions in corporate income tax revenues, without any legislative action, would exceed the materiality threshold stated above of \$50 million. The State anticipates that the Oregon Tax Court’s ruling will be appealed to the Oregon Supreme Court by the State or the taxpayer. Similar litigation is pending before the California Supreme Court.

Pro Se Cases

There are also several *pro se* cases pending against the State in which plaintiffs representing themselves are suing the State for many millions of dollars. The possibility of the State having to pay anything in any of these cases is negligible.

TAX MATTERS

Federally Tax-Exempt Bonds

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the State, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2013 Tax-Exempt Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) interest on the 2013 Tax-Exempt Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the State in connection with the 2013 Tax-Exempt Bonds, and Bond Counsel has assumed compliance by the State with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the 2013 Tax-Exempt Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel to the State, under existing statutes, interest on the 2013 Tax-Exempt Bonds is exempt from State of Oregon personal income tax.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the 2013 Tax-Exempt Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to its attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the 2013 Tax-Exempt Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the 2013 Tax-Exempt Bonds in order that interest on the 2013 Tax-Exempt Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the 2013 Tax-Exempt Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the 2013 Tax-Exempt Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The State has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the 2013 Tax-Exempt Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the 2013 Tax-Exempt Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a 2013 Tax-Exempt Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the 2013 Tax-Exempt Bonds.

Prospective owners of the 2013 Tax-Exempt Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the 2013 Tax-Exempt Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

“Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a 2013 Tax-Exempt Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity means the first price at which a substantial amount of the 2013 Tax-Exempt Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of 2013 Tax-Exempt Bonds is expected to be the initial public offering price set forth on the inside cover page of the Official Statement. Bond Counsel further is of the opinion that, for any 2013 Tax-Exempt Bonds having OID (a “Discount Bond”), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the 2013 Tax-Exempt Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner’s adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such 2013 Tax-Exempt Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Bond Premium

In general, if an owner acquires a 2013 Tax-Exempt Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the 2013 Tax-Exempt Bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “bond premium”

on that 2013 Tax-Exempt Bond (a “Premium Bond”). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner’s yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner’s original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the 2013 Tax-Exempt Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, “Request for Taxpayer Identification Number and Certification,” or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to “backup withholding,” which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a “payor” generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a 2013 Tax-Exempt Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the 2013 Tax-Exempt Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner’s Federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the 2013 Tax-Exempt Bonds under Federal or state law or otherwise prevent beneficial owners of the 2013 Tax-Exempt Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the 2013 Tax-Exempt Bonds.

Prospective purchasers of the 2013 Tax-Exempt Bonds should consult their own tax advisors regarding the foregoing matters.

Federally Taxable Bonds

Opinion of Bond Counsel

In the opinion of Bond Counsel to the State, interest on the 2013 Taxable Bonds (i) is included in gross income for Federal income tax purposes pursuant to the Internal Revenue Code of 1986, as amended (the “Code”) and (ii) is exempt, under existing statutes, from personal income taxes imposed by the State of Oregon.

The following discussion is a brief summary of the principal United States Federal income tax consequences of the acquisition, ownership and disposition of 2013 Taxable Bonds by original purchasers of the 2013 Taxable Bonds who are “U.S. Holders,” as defined herein. This summary (i) is based on the Code, Treasury Regulations, revenue rulings and court decisions, all as currently in effect and all subject to change at any time, possibly with retroactive effect; (ii) assumes that the 2013 Taxable Bonds will be held as “capital assets”; and (iii) does not discuss all of the United States Federal income tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as insurance companies, financial institutions, tax-exempt organizations, dealers in securities or foreign currencies, persons holding the 2013 Taxable Bonds as a position in a “hedge” or “straddle”, holders whose functional currency (as defined in Section 985 of the Code) is not the United States dollar, holders who acquire 2013 Taxable Bonds in the secondary market, or individuals, estates and trusts subject to the tax on unearned income imposed by Section 1411 of the Code.

Holders of 2013 Taxable Bonds should consult with their own tax advisors concerning the United States Federal income tax and other consequences with respect to the acquisition, ownership and disposition of the 2013 Taxable Bonds as well as any tax consequences that may arise under the laws of any state, local or foreign tax jurisdiction.

Original Issue Discount

In general, if Original Issue Discount (“OID”) is greater than a statutorily defined *de minimis* amount, a holder of a 2013 Taxable Bond having a maturity of more than one year from its date of issue must include in Federal gross income (for each day of the taxable year, or portion of the taxable year, in which such holder holds such 2013 Taxable Bond) the daily portion of OID, as it accrues (generally on a constant yield method) and regardless of the holder’s method of accounting. “OID” is the excess of (i) the “stated redemption price at maturity” over (ii) the “issue price”. For purposes of the foregoing: “issue price” means the first price at which a substantial amount of the 2013 Taxable Bond is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers); “stated redemption price at maturity” means the sum of all payments, other than “qualified stated interest”, provided by such 2013 Taxable Bond; “qualified stated interest” is stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate; and “*de minimis* amount” is an amount equal to 0.25 percent of the 2013 Taxable Bond’s stated redemption price at maturity multiplied by the number of complete years to its maturity. A holder may irrevocably elect to include in gross income all interest that accrues on a 2013 Taxable Bond using the constant-yield method, subject to certain modifications.

Acquisition Discount on Short-Term Taxable Bonds

Each holder of a 2013 Taxable Bond with a maturity not longer than one year (a “Short-Term Taxable Bond”) is subject to rules of Sections 1281 through 1283 of the Code, if such holder is an accrual method taxpayer, bank, regulated investment company, common trust fund or among certain types of

pass-through entities, or if the Short-Term Taxable Bond is held primarily for sale to customers, is identified under Section 1256(e)(2) of the Code as part of a hedging transaction, or is a stripped bond or coupon held by the person responsible for the underlying stripping transaction. In any such instance, interest on, and “acquisition discount” with respect to, the Short-Term Taxable Bond accrue on a ratable (straight-line) basis, subject to an election to accrue such interest and acquisition discount on a constant interest rate basis using daily compounding. “Acquisition discount” means the excess of the stated redemption price of a Short-Term Taxable Bond at maturity over the holder’s tax basis therefor.

A holder of a Short-Term Taxable Bond not described in the preceding paragraph, including a cash-method taxpayer, must report interest income in accordance with the holder’s regular method of tax accounting, unless such holder irrevocably elects to accrue acquisition discount currently.

Bond Premium

In general, if a 2013 Taxable Bond is originally issued for an issue price (excluding accrued interest) that reflects a premium over the sum of all amounts payable on the 2013 Taxable Bond other than “qualified stated interest” (a “Taxable Premium Bond”), that Taxable Premium Bond will be subject to Section 171 of the Code, relating to bond premium. In general, if the holder of a Taxable Premium Bond elects to amortize the premium as “amortizable bond premium” over the remaining term of the Taxable Premium Bond, determined based on constant yield principles (in certain cases involving a Taxable Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the highest yield on such bond), the amortizable premium is treated as an offset to interest income; the holder will make a corresponding adjustment to the holder’s basis in the Taxable Premium Bond. Any such election is generally irrevocable and applies to all debt instruments of the holder (other than tax-exempt bonds) held at the beginning of the first taxable year to which the election applies and to all such debt instruments thereafter acquired. Under certain circumstances, the holder of a Taxable Premium Bond may realize a taxable gain upon disposition of the Taxable Premium Bond even though it is sold or redeemed for an amount less than or equal to the holder’s original acquisition cost.

Disposition and Defeasance

Generally, upon the sale, exchange, redemption, or other disposition (which would include a legal defeasance) of a 2013 Taxable Bond, a holder generally will recognize taxable gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued interest not previously includable in income) and such holder’s adjusted tax basis in the 2013 Taxable Bond.

The State may cause the deposit of moneys or securities in escrow in such amount and manner as to cause the 2013 Taxable Bonds to be deemed to be no longer outstanding under the Master Indenture (a “defeasance”). For Federal income tax purposes, such defeasance could result in a deemed exchange under Section 1001 of the Code and a recognition by such owner of taxable income or loss, without any corresponding receipt of moneys. In addition, the character and timing of receipt of payments on the 2013 Taxable Bonds subsequent to any such defeasance could also be affected.

Information Reporting and Backup Withholding

In general, information reporting requirements will apply to non-corporate holders of the Bonds with respect to payments of principal, payments of interest, and the accrual of OID on a 2013 Taxable Bond and the proceeds of the sale of a 2013 Taxable Bond before maturity within the United States. Backup withholding may apply to holders of 2013 Taxable Bonds under Section 3406 of the Code. Any amounts withheld under the backup withholding rules from a payment to a beneficial owner, and which

constitutes over-withholding, would be allowed as a refund or a credit against such beneficial owner's United States Federal income tax provided the required information is furnished to the Internal Revenue Service.

U.S. Holders

The term "U.S. Holder" means a beneficial owner of a 2013 Taxable Bond that is: (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate the income of which is subject to United States Federal income taxation regardless of its source or (iv) a trust whose administration is subject to the primary jurisdiction of a United States court and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust.

IRS Circular 230 Disclosure

The advice under the caption, "TAX MATTERS—Federally Taxable Bonds", concerning certain income tax consequences of the acquisition, ownership and disposition of the 2013 Taxable Bonds, was written to support the marketing of the 2013 Taxable Bonds. To ensure compliance with requirements imposed by the Internal Revenue Service, each prospective purchaser of the 2013 Taxable Bonds is advised that (i) any Federal tax advice contained in this official statement (including any attachments) or in writings furnished by Bond Counsel to the State is not intended to be used, and cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer under the Code, and (ii) the taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the 2013 Taxable Bonds under Oregon state law or otherwise prevent beneficial owners of the 2013 Taxable Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the 2013 Taxable Bonds.

Prospective purchasers of the 2013 Taxable Bonds should consult their own tax advisors regarding the foregoing matters.

ERISA CONSIDERATIONS

The Employee Retirement Income Security Act of 1974, as amended ("ERISA"), imposes certain requirements on employee benefit plans subject to Title I of ERISA ("ERISA Plans"), and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including, but not limited to, the requirements of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the Plan.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to Title I of ERISA but are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, "Plans")) and certain persons (referred to as "parties in interest" or "disqualified persons" (each, a "Party in Interest")) having certain relationships to such Plans, unless a statutory or administrative exemption is

applicable to the transaction. A Party in Interest who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code.

The fiduciary of a Plan that proposes to purchase and hold any 2013 Taxable Bonds should consider, among other things, whether such purchase and holding may involve (i) the direct or indirect extension of credit to a Party in Interest, (ii) the sale or exchange of any property between a Plan and a Party in Interest and (iii) the transfer to, or use by or for the benefit of, a Party in Interest, of any Plan assets. Depending on the identity of the Plan fiduciary making the decision to acquire or hold 2013 Taxable Bonds on behalf of a Plan and other factors, U.S. Department of Labor Prohibited Transaction Class Exemption (“PTCE”) 75-1 (relating to certain broker-dealer transactions), PTCE 84-14 (relating to transactions effected by “qualified professional asset managers”), PTCE 90-1 (relating to investments by insurance company pooled separate accounts), PTCE 91-38 (relating to investments by bank collective investment funds), PTCE 95-60 (relating to investments by an insurance company general account), or PTCE 96-23 (relating to transactions directed by certain “in-house asset managers”) (collectively, the “Class Exemptions”) could provide an exemption from the prohibited transaction provisions of ERISA and Section 4975 of the Code. In addition, Section 408(b)(7) of ERISA and Section 4975(d)(20) of the Code generally provide for a statutory exemption from the prohibitions of Section 406(a) of ERISA and Section 4975 of the Code for certain transactions between Plans and persons who are Parties in interest solely by reason of providing services to such Plans or that are affiliated with such service providers, provided generally that such persons are not fiduciaries with respect to the “plan assets” of any Plan involved in the transaction and that certain other conditions are satisfied.

By its acceptance of a 2013 Taxable Bond, each purchaser will be deemed to have represented and warranted that either (i) no “plan assets” of any Plan have been used to purchase such 2013 Taxable Bond, or (ii) the Underwriter is not a Party in Interest with respect to the “plan assets” of any Plan used to purchase such 2013 Taxable Bond, or (iii) the purchase and holding of such 2013 Taxable Bond is exempt from the prohibited transaction restrictions of ERISA and Section 4975 of the Code pursuant to a statutory exemption or an administrative class exemption.

Each Plan fiduciary (and each fiduciary for a governmental or church plan subject to the rules similar to those imposed on Plans under ERISA) should consult with its legal advisor concerning an investment in any of the 2013 Taxable Bonds.

THE TRUSTEE AND THE PAYING AGENT AND REGISTRAR

Wells Fargo Bank, National Association (“Wells Fargo”) will act as Trustee under the Master Indenture. The principal corporate trust office of the Trustee is located at 1700 Lincoln Street, 10th Floor, MAC C7300-107, Denver, Colorado 80203, or such other additional offices as may be designated by the Trustee. The Trustee’s telephone number is 303-863-6480, and its facsimile number is 303-863-5645.

The Trustee is a national banking association headquartered in San Francisco, California.

The Bank of New York Mellon, or a successor bank appointed by the State Treasurer under ORS 286A.132, will act as Paying Agent and Registrar for the 2013 Bonds.

CERTAIN LEGAL MATTERS

Hawkins Delafield & Wood LLP, Portland, Oregon, Bond Counsel, will render its opinions with respect to the authorization, validity and enforceability of the 2013 Bonds in substantially the forms set forth in Appendix D, subject to the matters set forth above in “LITIGATION—Past Litigation Involving the Lottery—*Oregonians for Gambling Awareness v. State of Oregon.*” Hawkins Delafield & Wood LLP

occasionally represents underwriters in connection with certain other State bond matters. In connection with the 2013 Bonds, certain legal matters will be passed upon for the Underwriters by Orrick, Herrington & Sutcliffe LLP, Portland, Oregon, and for the State by the Oregon Department of Justice, Salem, Oregon.

Orrick, Herrington & Sutcliffe LLP, who represents the Underwriters in connection with the 2013 Bonds, represents the State in certain bond, disclosure and other matters. Orrick, Herrington & Sutcliffe LLP also represents the Public Employees' Retirement Board and the State acting by and through the Oregon Investment Council on behalf of the Oregon Public Employees' Retirement Fund.

UNDERWRITING

The 2013 Bonds are being purchased by Citigroup Global Markets Inc., Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Fidelity Capital Markets, a division of National Financial Services LLC, J.P. Morgan Securities LLC, Morgan Stanley & Co. LLC and Piper Jaffray & Co. (collectively, the "Underwriters").

The purchase agreement relating to the 2013 Bonds (the "2013 Purchase Agreement") provides that the Underwriters will purchase all of the 2013 Bonds, if they are purchased. The purchase price of the 2013 Series A Bonds is \$144,569,968.93, representing the aggregate principal amount of the 2013 Series A Bonds (\$122,500,000.00), plus original issue premium of \$22,500,690.15 and less Underwriters' discount of \$430,721.22. The purchase price of the 2013 Series B Bonds is \$28,058,437.57, representing the aggregate principal amount of the 2013 Series B Bonds (\$28,140,000.00) and less Underwriters' discount of \$81,562.43. The purchase price of the 2013 Series C Bonds is \$70,880,723.88, representing the aggregate principal amount of the 2013 Series C Bonds (\$71,075,000.00) and less Underwriters' discount of \$194,276.12. The obligation to make such purchase is subject to certain terms and conditions set forth in the 2013 Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions. The Underwriters reserve the right to join with dealers and other underwriters in offering the 2013 Bonds to the public. The Underwriters may offer and sell the 2013 Bonds to certain dealers (including dealers depositing the 2013 Bonds to investment trusts) and others at prices lower than the initial public offering prices indicated on the inside cover page hereof. The Underwriters may change the public offering prices from time to time without prior notice.

Citigroup Inc. and Morgan Stanley, the respective parent companies of Citigroup Global Markets Inc. and Morgan Stanley & Co. LLC, each an underwriter of the 2013 Bonds, have entered into a retail brokerage joint venture. As part of the joint venture each of Citigroup Global Markets Inc. and Morgan Stanley & Co. LLC will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, each of Citigroup Global Markets Inc. and Morgan Stanley & Co. LLC will compensate Morgan Stanley Smith Barney LLC. for its selling efforts in connection with their respective allocations of the 2013 Bonds.

J.P. Morgan Securities LLC ("JPMS"), an underwriter of the 2013 Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings, including the 2013 Bonds, at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS& Co. will purchase the 2013 Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any 2013 Bonds that such firm sells.

Piper Jaffray & Co. and Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, entered into an agreement (the "Agreement") which enables Pershing LLC to distribute certain new issue municipal securities underwritten by or allocated to Piper Jaffray & Co., including the 2013 Bonds. Under the Agreement, Piper Jaffray & Co. will share with Pershing LLC a portion of the fee or commission paid to Piper Jaffray & Co.

RATINGS

Moody's Investors Service and Standard & Poor's Ratings Services have assigned municipal bond ratings of "Aa2" and "AAA," respectively, to the 2013 Bonds.

Any explanation of the significance of ratings should be obtained directly from the agencies. There is no assurance that any rating will not be subsequently revised or withdrawn entirely if, in the judgment of the assigning agency, circumstances so warrant. The State has undertaken to provide timely notice of any change in such ratings. See "CONTINUING DISCLOSURE."

CONTINUING DISCLOSURE

The State, acting by and through the State Treasurer and the Department, will undertake in a Continuing Disclosure Certificate for the benefit of registered and beneficial Owners of the 2013 Bonds to provide to the Municipal Securities Rulemaking Board, on an annual basis on or before nine months after the end of each fiscal year, commencing with the fiscal year ending June 30, 2013, certain specified financial information and operating data. In addition, the State and the Department will undertake for the benefit of registered and beneficial Owners of the 2013 Bonds to provide to the Municipal Securities Rulemaking Board in a timely manner notices of listed events. This undertaking is to assist the Underwriters in complying with Rule 15c2-12 of the Securities and Exchange Commission.

The State determined that for the fiscal year ended June 30, 2009 the financial statements of the Oregon University System were not filed for the six digit base CUSIP number 68608K, although such financial statements were timely filed with respect to other six digit base CUSIP numbers of the State. An amendment has been made to the original EMMA filing so that these financial statements are now connected to the six digit base CUSIP number 68608K. The State has also determined that in connection with its State of Oregon General Obligation Refunding Bonds (Oregon University System), 2012 Series A (Tax-Exempt), 2012 Series B (Tax-Exempt) and 2012 Series C (Federally Taxable) (the "2012 OUS GO Bonds"), which were issued to refund certain maturities of outstanding general obligation bonds of the State issued for the benefit higher education institutions in the State (the "2012 Refunded OUS GO Bonds"), notices of defeasance with respect to the 2012 Refunded OUS GO Bonds were not filed on EMMA at the time of the closing and delivery of the 2012 OUS GO Bonds. The State has filed the notices of defeasance on EMMA with respect to the 2012 Refunded OUS GO Bonds. The State believes that it has otherwise complied in all material respects with its previous continuing disclosure undertakings under Rule 15c2-12. The proposed form of Continuing Disclosure Certificate is contained in Appendix E.

MISCELLANEOUS

References are made herein to certain documents and reports of which brief summaries are contained herein, which do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the State and the purchasers or holders of any of the 2013 Bonds.

This Official Statement is submitted in connection with the sale of the securities referred to herein and may not be reproduced or used in whole or in part, for any other purpose.

/s/ Michael Jordan
Michael Jordan
Director, Department of Administrative Services

By Order of

Ted Wheeler
Oregon State Treasurer

/s/ Laura Lockwood-McCall
Laura Lockwood-McCall
Director, Debt Management Division

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APPENDIX A

**GENERAL INFORMATION RELATING TO
THE STATE OF OREGON**

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THE STATE OF OREGON GOVERNMENTAL ORGANIZATION

The Oregon Constitution divides the powers of State government among the Legislative, Executive and Judicial branches.

The Legislative Branch

Oregon has a bicameral Legislative Assembly consisting of the Senate with thirty members elected to serve four-year terms and the House of Representatives with sixty members elected to two-year terms.

The Legislative Assembly convenes its regular session in January of each year, with normal sessions in odd-numbered years (“regular sessions”) and abbreviated sessions in even-numbered years. Legislative sessions are limited to 160 days in odd numbered years, and 35 days in even numbered years. Sessions may be extended for five days at a time, by a two-thirds majority vote of both chambers of the legislature. During a typical regular legislative session, approximately one-third of the estimated 3,000 bills introduced become law. The Governor or a majority of each house may call special sessions of the Legislative Assembly to deal with emergencies.

The primary functions of the Legislative Assembly are to adopt a balanced budget for all State funds, as required by the Oregon Constitution and to enact general laws. Historically, the Legislative Assembly budgeted on a biennial basis because it convened biennially. However, the Oregon Constitution was amended in 2010 to provide for annual sessions. Therefore, the Legislative Assembly may adopt annual budgets for State agencies, rather than for the entire biennium, or may adopt biennial agency budgets that are adjusted in an interim legislative session. State law requires a financial report of State operations to be prepared at the end of each fiscal year. The State’s fiscal year ends June 30.

The Oregon Constitution authorizes the Emergency Board (“E-Board”), a joint legislative committee, to meet between legislative sessions to address financial matters of the State arising in the interim period. The seventeen-member E-Board consists of the President of the Senate, Speaker of the House of Representatives, Co-Chairpersons of the Joint Ways and Means Committee, six other Senate members and seven other House members. The E-Board, which may schedule its own meetings, usually meets once every other month during the interim between regular sessions. If an emergency exists, the E-Board may allocate additional moneys to any State agency out of funds appropriated to the E-Board by the Legislative Assembly during its regular session. The Board may also provide moneys for an activity required by law for which the Legislative Assembly did not appropriate moneys to increase expenditure authority from dedicated or continuously appropriated funds, and approve funding for a new activity coming into existence at a time that would preclude submission of a budget to the Legislative Assembly.

The Executive Branch

The chief executive power of the State is vested in the Governor. The Governor is elected to a four-year term and is limited to serving two terms in any twelve-year period. John Kitzhaber was recently elected to his third term as Governor after an eight year absence and is scheduled to serve until January 2015. The Governor proposes, plans, and recommends a budget for almost all of State government to the Legislative Assembly. The Governor also may call special sessions of the Legislative Assembly and appoint judges to vacant judicial positions. The Governor directly appoints the directors of most State agencies and many other State officials.

The Secretary of State is a statewide constitutionally elected officer designated as the auditor of

public accounts in the State and as the State's chief elections officer. As auditor, the Secretary of State audits or reviews the accounts and financial affairs of State boards, commissions, departments and institutions. The Secretary of State also edits, codifies and publishes administrative rules, which supplement laws passed by the Legislative Assembly and prescribe the manner in which State agencies conduct business.

The State Treasurer is also a statewide constitutionally elected officer. The Treasurer is responsible for all moneys paid into the State Treasury and administers the State's banking, cash flow, borrowing and investment operations. The State Treasurer also chairs or serves on numerous State boards and commissions responsible for investing several State funds and for setting borrowing policies for the State.

The Governor, the Secretary of State and the State Treasurer comprise the State Land Board, established by the Oregon Constitution to manage the Common School Fund and certain lands dedicated at statehood for educational purposes. The Common School Fund's most recent valuation was approximately \$1.18 billion as of December 31, 2012. Its value fluctuates based on market conditions and the amount of withdrawals. The fund is managed as a perpetual trust fund with approximately two to five percent of its value distributed annually to the State Superintendent of Public Schools for distribution to the State's K-12 public school districts.

In addition to the Offices of the Secretary of State and the State Treasurer, the Executive Branch includes other offices administered by statewide elected officials. The State Attorney General manages the Department of Justice and the State's legal affairs. The Labor Commissioner manages the Bureau of Labor and Industries that oversees and enforces the State's labor and wage laws.

The Judicial Branch

The Oregon Constitution establishes the Judicial Branch and consists of the Supreme Court, Court of Appeals, Tax Court, and 36 Circuit Courts in 27 judicial districts. The Chief Justice of the Oregon Supreme Court administers the State court system and is the head of the Oregon Judicial Department. The Court of Appeals hears most of the civil and criminal appeals from the Circuit Courts and reviews most State administrative agency actions. The Circuit Courts are Oregon's trial courts of general jurisdiction. The Tax Court is a special one-judge court that has exclusive, statewide jurisdiction to hear only cases involving Oregon's tax laws. All Oregon judges are elected by popular vote. The Governor, however, may appoint judges to fill vacancies that occur.

Services Provided by State Government

The Governor appoints the heads of and coordinates numerous State agencies that provide services through program areas that include: (1) Consumer and Business Services for protecting consumers and workers, promoting a positive business climate and regulation of various professions; (2) Economic and Community Development that aids businesses and people, including job creation, placement and retention services, business recruitment, community development and affordable housing; (3) Education from pre-kindergarten to post-secondary and life-long learning through community colleges and workforce development programs; (4) Human Services that relate to physical, mental and public health, self-sufficiency, child protective services and care for seniors and people with disabilities; (5) Natural Resources overseeing pollution control, land use, water quality and conservation, agriculture and food products, forests, watersheds and fisheries; (6) Public Safety that protects Oregon's people, property and natural resources, through trained militia, law enforcement, prosecution and incarceration of juvenile and adult offenders; (7) Transportation; and (8) Administration that manages and provides policy direction and central services to other State agencies, such as data and networking infrastructure and

procurement activities. The management of elections and tax collection activities are also under this program area.

See Table 15 for a summary of expenditures by program area by fund.

Employee Relations

For the 2011-13 biennium, there are approximately 50,735 employees providing services through State government. Approximately 70 percent of non-management or executive service employees in State government are members of bargaining units subject to collective bargaining. Employees of the State of Oregon and of certain political subdivisions have the right to form, join, and participate in the activities of labor organizations for representation and collective bargaining on matters concerning employment relations. An officially recognized or certified labor organization is the exclusive representative of its covered employees for collective bargaining. The scope of representation may include, but is not limited to, matters concerning wages, hours, paid leave and grievance procedures. The public employer must bargain in good faith with respect to employment relations. If a contract remains unsettled after a 150-day period of good faith contract negotiations, either or both of the parties may notify the Employment Relations Board of an impasse and the need for a mediator. The parties may mutually agree to request a mediator before the end of the 150-day period by notifying the Board. If the parties do not reach settlement through mediation, then after a 30-day cooling off period for strike-permitted bargaining units the employer may unilaterally implement its last offer and/or the union may strike. For strike-prohibited bargaining units, either the employer or the exclusive representative may initiate binding arbitration to establish a successor collective bargaining agreement if mediation fails to produce a settlement. All State labor contracts expire at the end of each biennium (June 30, every two years) and are re-negotiated for the following biennium.

ECONOMIC AND DEMOGRAPHIC INFORMATION

Historical Perspective

The Oregon economy has transitioned and diversified from a predominant concentration in timber harvesting and wood products manufacturing to high-tech manufacturing. As high-tech manufacturing grew in Oregon, the State also developed stronger ties to major export markets in the Pacific Rim. Population growth has historically exceeded the national rate, fueled by the in-migration of young professional and retiree populations attracted by the high-quality jobs, relatively low cost of living and affordable housing.

Sectors of increasing importance in the Oregon economy include construction, retail trade, health services, and leisure and hospitality services. Exports also continue to be a significant driver for the Oregon economy, nearly doubling since 2001.

The collapse of the national housing market affected associated Oregon industries, with job losses in wood products and construction. As the financial crisis led to a deeper recession for the U.S. economy, this in turn deepened the recession for Oregon. While Oregon's housing market was affected by the economic downturn, its values declined less than several other western states including California, Nevada, and Arizona.

Employment

The following two tables compare Oregon and the United States with respect to unemployment rates and the composition of annual average employment.

TABLE 1
UNEMPLOYMENT RATES
OREGON AND UNITED STATES
(ANNUAL AVERAGES, IN THOUSANDS)

<u>Year</u>	<u>Total Civilian Labor Force</u>				<u>Unemployment Rate as %</u>	
	<u>Oregon</u> ¹	<u>Percent Change (%)</u>	<u>U.S.</u> ¹	<u>Percent Change (%)</u>	<u>Oregon</u>	<u>U.S.</u>
2002	1,844	-	144,863	0.8	7.6	5.8
2003	1,850	0.3	146,510	1.1	8.1	6.0
2004	1,850	0.0	147,401	0.6	7.3	5.5
2005	1,856	0.3	149,320	1.3	6.2	5.1
2006	1,893	2.0	151,428	1.4	5.3	4.6
2007	1,921	1.5	153,124	1.1	5.2	4.6
2008	1,954	1.7	154,287	0.8	6.5	5.8
2009	1,973	1.0	154,142	(0.1)	11.1	9.3
2010	1,974	0.1	153,889	(0.2)	10.7	9.6
2011	1,975	0.1	153,617	(0.2)	9.6	8.9
2012	1,963	(0.6)	154,975	0.9	8.7	8.1

Source: U.S. Bureau of Labor Statistics (Seasonally Adjusted).

(1) Reflects recent revised population controls and/or model re-estimation.

TABLE 2
Composition of Annual Average
Employment Oregon and
the United States 2007 AND 2012

	<u>2007</u>				<u>2012</u>			
	<u>Oregon</u>		<u>United States</u>		<u>Oregon</u>		<u>United States</u>	
	<u># of Jobs</u>	<u>% of Total</u>	<u># of Jobs</u>	<u>% of Total</u>	<u># of Jobs</u>	<u>% of Total</u>	<u># of Jobs</u>	<u>% of Total</u>
Natural resources & mining	9,200	0.5	736,000	0.5	7,100	0.4	957,000	0.7
Construction	104,200	6.0	11,856,000	8.2	69,500	4.2	8,964,000	6.4
Durable goods manufacturing	150,900	8.7	10,363,000	7.2	121,500	7.4	9,244,000	6.6
Nondurable goods manufacturing	53,200	3.1	5,938,000	4.1	50,000	3.1	5,443,000	3.9
Wholesale Trade	80,800	4.7	4,367,900	3.0	75,200	4.6	3,694,000	2.6
Retail trade	200,700	11.6	16,570,200	11.5	187,000	11.4	16,182,000	11.5
Transportation, warehousing, and utilities	58,800	3.4	7,650,600	5.3	54,100	3.3	7,271,000	5.2
Information	36,000	2.1	3,566,000	2.5	32,500	2.0	2,971,000	2.1
Financial activities	106,400	6.2	10,488,000	7.3	90,200	5.5	9,590,000	6.8
Professional and business services	197,200	11.4	15,621,000	10.9	195,000	11.9	16,539,000	11.8
Educational services	29,000	1.7	12,828,500	8.9	33,800	2.1	12,945,000	9.2
Health care and social assistance	182,800	10.6	17,834,200	12.4	203,900	12.5	19,405,000	13.8
Leisure and hospitality	171,900	9.9	12,415,000	8.6	169,500	10.4	13,193,000	9.4
Other services	60,300	3.5	6,972,000	4.8	57,300	3.5	7,168,000	5.1
Government	289,800	16.7	6,746,000	4.7	291,500	17.8	6,717,000	4.8
Total Nonfarm jobs ¹	1,731,300		143,952,000		1,638,200		140,283,000	

Sources: Oregon Employment Department, Oregon Labor Market Information Services; U.S. Bureau of Labor Statistics (Not Seasonally Adjusted).

(1) Totals may not agree with sum of components due to categorization and rounding.

Oregon Gross Domestic Product

Oregon Gross Domestic Product (GDP) represents the value of goods and services produced by the State. The following table illustrates the changes in the components of the State's GDP over the 2006 to 2011 five-year period.

TABLE 3
OREGON GROSS DOMESTIC PRODUCT
(IN MILLIONS)

<u>Industry</u>	<u>2006 (\$)</u>	<u>% of Total</u>	<u>2011 (\$)</u>	<u>% of Total</u>
Agriculture, forestry, fishing and hunting	3,783	2.4	3,249	1.7
Mining	271	0.2	230	0.1
Utilities	2,045	1.3	2,107	1.1
Construction	7,580	4.7	6,372	3.3
Durable goods manufacturing	30,185	18.9	50,905	26.1
Nondurable goods manufacturing	4,649	2.9	5,097	2.6
Wholesale trade	9,845	6.2	10,717	5.5
Retail trade	8,941	5.6	9,138	4.7
Transportation and warehousing, excluding Postal Service	4,603	2.9	4,436	2.3
Information	4,794	3.0	5,589	2.9
Finance and insurance	8,027	5.0	8,887	4.6
Real estate, rental, and leasing	20,444	12.8	22,164	11.4
Professional and technical services	7,507	4.7	9,934	4.8
Management of companies and enterprises	3,077	1.9	3,536	1.8
Administrative and waste services	4,083	2.6	4,378	2.2
Educational services	1,144	0.7	1,489	0.8
Health care and social assistance	11,104	6.9	14,742	7.6
Arts, entertainment, and recreation	948	0.6	1,062	0.5
Accommodation and food services	4,118	2.6	4,757	2.4
Other Services, except government	3,927	2.5	4,128	2.1
Government	18,826	11.8	22,365	11.5
Total Oregon GDP	159,899		194,742	

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Residential Construction

The following table shows the number of Oregon residential building permits issued over the last ten years.

**TABLE 4
OREGON RESIDENTIAL BUILDING PERMITS**

<u>Calendar Year</u>	<u>Single-Family Dwellings</u>	<u>Percent Change (%)</u>	<u>Multi-Family Dwellings</u>	<u>Percent Change (%)</u>
2002	17,413	6.7	4,773	-4.5
2003	17,875	2.7	7,140	49.6
2004	20,728	16.0	6,581	-7.8
2005	23,840	15.0	7,184	9.2
2006	19,859	-16.7	6,764	-5.8
2007	15,310	-22.9	5,791	-14.4
2008	7,466	-51.2	4,210	-27.3
2009	5,278	-29.3	1,761	-58.2
2010	5,259	-0.4	1,609	-8.6
2011	4,854	-7.7	2,809	74.6
2012	6,751	39.1	4,471	59.2

Source: U.S. Census Bureau, May 18, 2012.

International Trade and Exports

International trade is an increasingly important component of the State's economy. Canada was Oregon's top export market from 2002 through mid-2008; since then however, exports to Canada have fallen dramatically. China is playing an increasing role in both the international community and Oregon's local economy. Since the 3rd quarter of 2008, China has become the largest export market destination for Oregon products, accounting for nearly 23 percent of its exports.

The State's geography and natural resources have been instrumental in the development of the State's international trade activities. The State has twenty-three port districts all located on navigable waterways. The majority of the State's international trade occurs through the Port of Portland. Other important ports are located at the coastal cities of Astoria, Newport and Coos Bay. The following two tables show Oregon's top exports by industry and Oregon's major trading partners in 2006 and 2011.

TABLE 5
OREGON EXPORTS BY INDUSTRY
(IN MILLIONS, CALENDAR YEAR)

	<u>2007 (\$)</u>	<u>% of Total</u>	<u>2012 (\$)</u>	<u>% of Total</u>
Computer and Electronics Products	6,293	38.1	6,415	35.1
Agricultural Products	2,218	13.4	2,575	14.1
Machinery, except Electrical	1,690	10.2	1,792	9.8
Chemicals	662	4.0	1,561	8.5
Transportation Equipment	1,775	10.7	1,179	6.4
Food and Kindred Products	403	2.4	639	3.5
Primary Metal Manufacturing	603	3.6	607	3.3
Waste and Scrap	407	2.5	545	3.0
Wood Products	420	2.5	526	2.9
Paper	428	2.6	450	2.5
Other	<u>1,632</u>	<u>9.9</u>	<u>2,012</u>	11.0
Total All Industries	16,531		18,300	

Source: Office of Economic Analysis

TABLE 6
OREGON EXPORTS TO MAJOR TRADING PARTNERS
(IN MILLIONS, CALENDAR YEAR)

	<u>2007 (\$)</u>	<u>% of Total</u>	<u>2012 (\$)</u>	<u>% of Total</u>
Canada	2,800	16.9	2,981	16.3
China	1,426	8.6	2,661	14.5
Malaysia	1,077	6.5	1,952	10.7
Japan	1,470	8.9	1,577	8.6
Korea, Republic Of	1,336	8.1	1,102	6.0
Costa Rica	543	3.3	798	4.4
Taiwan	939	5.7	745	4.1
Vietnam	98	0.6	589	3.2
Germany	416	2.5	433	2.4
Hong Kong	309	1.9	433	2.4
Australia	590	3.6	421	2.3
Brazil	189	1.1	407	2.2
Mexico	954	5.8	371	2.0
Singapore	433	2.6	366	2.0
United Kingdom	290	1.8	332	1.8
Other	<u>3,663</u>	<u>22.2</u>	<u>3,131</u>	17.1
Total All Countries	16,531		18,300	

Source: Office of Economic Analysis

Income

The following two tables compare Oregon and the United States with respect to personal income and per capita income from 2002 to 2011.

TABLE 7
PERSONAL INCOME
(IN MILLIONS)

Calendar		Percent		Percent	Oregon as a
Year	Oregon (\$)	Change (%)	U.S. (\$)	Change (%)	% of U.S.
2002	104,690	3.2	9,054,702	2.0	1.16
2003	108,487	3.6	9,369,072	3.5	1.16
2004	112,974	4.1	9,928,790	6.0	1.14
2005	117,634	4.1	10,476,669	5.5	1.12
2006	127,403	8.3	11,256,516	7.4	1.13
2007	133,821	5.0	11,900,562	5.7	1.12
2008	140,979	5.3	12,451,660	4.6	1.13
2009	135,079	(4.2)	11,916,773	(4.3)	1.13
2010	139,395	3.2	12,353,577	3.7	1.13
2011	145,300	4.2	12,949,905	4.8	1.12

Source: U.S. Bureau of Economic Analysis, October 3, 2012.

TABLE 8
PER CAPITA INCOME

Calendar		Percent		Percent	Oregon as a
Year	Oregon (\$)	Change (%)	U.S. (\$)	Change (%)	% of U.S.
2002	29,797	1.9	31,481	1.0	94.7
2003	30,582	2.6	32,295	2.6	94.7
2004	31,650	3.5	33,909	5.0	93.3
2005	32,557	2.9	35,452	4.6	91.8
2006	34,706	6.6	37,725	6.4	92.0
2007	35,950	3.6	39,506	4.7	91.0
2008	37,407	4.1	40,947	3.6	91.4
2009	35,467	(5.2)	38,846	(5.1)	91.3
2010	36,317	2.4	39,937	2.8	90.9
2011	37,527	4.5	41,560	4.5	90.3

Source: U.S. Bureau of Economic Analysis October 3, 2012

(p) Preliminary

Population

The 2010 U.S. Census ranked Oregon as the 27th most populous state with a population of 3.87 million. Oregon's population growth rate since the 2000 census is the 14th fastest in the nation.

TABLE 9
POPULATION CHANGE
OREGON AND UNITED STATES, 1990 – 2020

<u>Year</u>	<u>Oregon</u>	<u>Percent</u> <u>Change (%)</u>	<u>United States</u> ¹	<u>Percent</u> <u>Change (%)</u>
1990	2,860,400	--	248,709,873	--
2000	3,431,100	20.0	281,421,906	13.2
2010	3,837,300	11.8	308,745,538	9.7
2020 (projected)	4,252,100	10.8	333,896,000	8.1

Sources: Office of Economic Analysis, March 2013 Oregon Economic and Revenue Forecast; U.S. Census Bureau.

STATE FINANCIAL OPERATIONS

Budgetary Process

The Oregon constitution requires the State's budget to balance at the end of each biennium. Article IX, Section 2 of the Oregon Constitution states that the Legislative Assembly shall provide for raising revenue sufficiently to defray the expenses of the State for each fiscal year. Article IX, Section 6 of the constitution states that "whenever the expenses, of any fiscal year, shall exceed the income, the Legislative Assembly shall provide for levying a tax, for the ensuing fiscal year, sufficient, with other sources of income, to pay the deficiency, as well as the estimated expense [sic] of the ensuing fiscal year." Because of these two provisions, Oregon may not budget a deficit and is required to alleviate any revenue shortfalls within each biennium.

Historically, during the regular legislative session at the start of every biennium, the Legislative Assembly adopts a budget covering all of the State's operations for the next biennium. A biennium begins July 1 and ends June 30 of odd-numbered years. The budget is adopted through the enactment of separate budget bills for each State agency and for the Legislative and Judicial Branches (the "Budget Bills"). There are four different categories of funds included in the State's budget: (i) General Funds, (ii) Lottery Funds, (iii) Other Funds (dedicated funds), and (iv) Federal Funds.

The budgeting process begins with the Governor's submission of a recommended budget for State agencies in the December preceding the start of a new regular legislative session. Concurrently, each agency prepares and files Budget Bills during December so that when the Legislative Assembly convenes in January for its regular session, the Joint Ways and Means Committee can begin consideration of each bill. By statute, the budget may not permit certain governmental purpose expenditures to exceed eight percent of the State's personal income. This limitation may be exceeded only if the Governor declares an emergency and if three-fifths of each house of the Legislative Assembly votes to exceed the limit.

The Legislative Assembly may provide spending authority to a State agency through a continuous appropriation of a fund dedicated for a certain purpose. In that case, spending is limited only by the amount of revenues received in or held by the fund. The Legislative Assembly may also limit the amount of money spent by placing an expenditure limitation on a continuously appropriated and dedicated fund. In addition, the Legislative Assembly enacts one-time appropriations of moneys to specific agencies or programs from moneys expected to be received or held by the State's General Fund and from lottery revenues. After the Budget Bills are passed, the Governor may veto an entire bill, single items in appropriation bills or the emergency clause in a bill. A two-thirds vote of the Legislative Assembly may override the Governor's veto.

If budget adjustments are required after a legislative session has ended, the Legislative Assembly may meet again in a specially called session, or the Legislative E- Board may adjust agency budgets.

Revenue Forecasting

Oregon law requires DAS to prepare an estimate for each calendar quarter of the total amount of revenue, including General Fund and lottery revenues, available for State purposes for the current fiscal year, as well as the amount of revenue received quarterly, cumulated through the biennium. DAS must report its estimates to the Legislative Assembly, when it is in session, and to certain interim committees of the Legislative Assembly, when it is not in session. The reports are issued as of the first day of each March, June, September and December. These reports are commonly known as the quarterly "revenue forecast", and focus on the amount of expected General Fund and lottery revenues. In odd-numbered

years when the Legislative Assembly is in session, the June forecast is released approximately May 15 and is commonly referred to as the “close of session” or “COS” forecast.

Oregon law also requires DAS to set forth the methodology and assumptions used to develop each quarterly revenue forecast. Currently, the State uses an econometric model to forecast the Oregon economy and personal and corporate income taxes (over 80 percent of the State’s General Fund revenue). The system receives new data each quarter, with revisions to the model as necessary. The econometric model has two major parts: (1) a State economic model that estimates employment, wages and personal income; and (2) a revenue forecasting system based on the economic model, for use in estimating personal and corporate income taxes. The model does not include the fees and other miscellaneous revenues that comprise the balance of General Fund revenues.

The development of a revenue forecast involves three steps. First, a forecast of economic conditions in Oregon is made, then projected income and population is translated into projected tax receipts other than from corporate and excise taxes and finally corporate income and excise tax collections are projected. In developing its projections the State uses the national baseline forecasts of Global Insight, Inc.

Accounting Practices

Oregon law designates DAS as the agency responsible for the overall administration and coordination of the State’s internal accounting and other fiscal controls and procedures. DAS has developed the Oregon Accounting Manual that sets forth internal policies and uniform procedures for agencies to follow in their fiscal management, accounting and reporting.

DAS must prepare a financial report for the State of Oregon within 180 days after the close of each fiscal year. The reporting entity of the State of Oregon includes all State agencies, universities, commissions and boards for which elected State officials have oversight responsibility. Oregon’s financial statements are prepared in conformity with generally accepted accounting principles applicable to state governments.

All governmental funds use the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. On the modified accrual basis of accounting, taxpayer assessed taxes are recognized when the underlying exchange has occurred and the resources are available. Expenditures are recognized under the modified accrual basis of accounting when the related liability is incurred. An exception to this general rule of expenditure recognition is that principal and interest on general long-term debt is recognized when due.

All proprietary and fiduciary funds are accounted for using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses (other than debt service) are recognized when they are incurred.

Controls

Audits

The Secretary of State, as State Auditor, may audit or review the accounts and financial affairs of each State agency as deemed appropriate under ORS 297.210. An audit or review may also occur when there is a change in the executive head of an institution or department. The Governor, Legislative Fiscal Officer and DAS receive a report on each audit. The Secretary of State’s Audit Division reviews the funds of the State’s larger agencies in connection with the development of the State’s annual financial report and provides annual audits, as requested, for the State’s revenue bond funded programs.

Disbursements and Allotments

Oregon law requires that State agency spending be monitored and that moneys be disbursed throughout the biennium through an allotment process that is administered by DAS. Under this process, DAS allots to each agency the amount of appropriated moneys that may be spent during each of the eight quarters in a biennium. The amount of an allotment is based on estimates submitted by agencies of their statutory duties and projected expenditures to fulfill the purposes for which moneys were appropriated to them. DAS may amend allotments previously made by it at the request of an agency or after notice by DAS to an agency. In addition, if DAS declares at any time during the biennium that there is a projected budget deficit due to insufficient revenues, then DAS, with the Governor's approval, may reduce previously made allotments to a level necessary to prevent the deficit. Allotments made for the purpose of debt service payments, however, may not be reduced.

Fiscal Checks and Balances

Oregon law provides for a system of checks and balances with respect to the deposit, accounting and expenditure of State moneys. DAS supervises State agency accounting and prescribes rules and regulations for preparation of agency budgets. The Secretary of State, the constitutionally designated auditor of public accounts, may disapprove claims for payment from any moneys in the State Treasury. State agencies are required to turn the moneys collected by them over to the State Treasurer for deposit into various funds that comprise the State Treasury. The State Treasurer is responsible for control of State banking relationships, cash management and the investment of State funds. Some State moneys are deposited with outside trustees who administer the cash and investments.

On a day-to-day basis, DAS, along with the State Treasurer and the Secretary of State, maintains the system of checks and balances. For example, DAS reconciles its accounts monthly with the related account balances maintained by the State Treasurer, which facilitates the adjustment of any imbalances or other errors. DAS also follows up on major deficiencies listed in the audit reports prepared by the Audits Division of the Secretary of State. Agencies must respond to DAS stating in detail how they will correct the deficiencies.

Loss Management

The Department of Administrative Services, Enterprise Goods and Services, Risk Management section is responsible for managing the State's risk of loss due to various types of loss or liability. The primary kinds of loss that the section works to prevent or pay include physical loss or damage to State property, tort liability claims brought against the State, its officers, employees, or agents, inmate injury, workers' compensation, employee dishonesty, and faithful performance bonds for key positions as required by law and additional positions as determined by agency policy. The State Insurance Fund (the "Fund") generally pays up to a set amount for various types of losses through its self-insurance program, with excess amounts covered by purchased commercial insurance policies. Both self-insurance losses and commercial insurance premiums are paid from the Fund. For each separate category of potential loss, DAS determines the appropriate level of the Fund or commercial insurance. Agencies pay assessments to the Fund for each category of loss. For additional information, see note 19 of the Basic Financial Statements for the State for the fiscal year ended June 30, 2012.

REVENUES

Revenues available to the State are discussed below based on the following categories: General Funds, Lottery Funds, Reserve Funds, Other Funds and Federal Funds. Certain of these revenues are available only to finance permitted purposes as authorized by State or federal law.

General Fund Revenues

The following describes the largest sources of the State's General Fund revenues. For additional information on the General Fund revenue amounts collected each biennium see Table 11 under "Oregon Financial Information."

Taxes

Personal Income Taxes. Oregon taxes the personal income of individuals, estates, and trusts. Taxable income is calculated using the Internal Revenue Code of 1986, as amended and in effect applicable to the tax year of the taxpayer. Oregon employers withhold income tax from their employees' wages. The employees then file Oregon tax returns for refunds or pay additional tax by April 15 of each year. Self-employed persons and others not subject to withholding must pay quarterly estimated tax payments.

Oregon tax rates for single filers are graduated between 5 percent for income under \$3,050 to 11 percent for income over \$250,000 for the 2011 tax year. The amount of applicable income is doubled for joint returns. The income amount to which a certain rate applies is indexed to changes in the Consumer Price Index. Beginning with the 2012 tax year the top tax rate is reduced to 9.9 percent for single filers with income over \$125,000.

Corporate Excise and Income Taxes. Corporations are subject to either a corporate excise tax or the corporate income tax under Oregon law.

The corporate excise tax is imposed for the privilege of doing business in Oregon. A corporation is doing business in Oregon when it engages in any profit-seeking activity in Oregon. The amount of excise tax is 6.6 percent for corporate taxable income of \$250,000 and under and 7.6 percent for income over \$250,000. However, there is a minimum tax of \$150 for S corporations and Partnerships or between \$150 and \$100,000 for C Corporations, depending on Oregon sales. Beginning in 2013, the tax rate will be 6.6 percent for taxable income of \$10 million or less and 7.6 percent for taxable income greater than \$10 million.

The corporate income tax is imposed on any corporation that is not doing business in Oregon, but that has income from an Oregon source. Corporations that operate in more than one state must determine the share of their income attributable to Oregon activities using Oregon sales relative to sales in all states. The corporate income tax rate mirrors that of the excise tax rate on taxable income derived from sources within Oregon.

Insurance Taxes. All authorized insurers in Oregon are subject to the corporate excise tax; however, foreign insurers (those domiciled in other states) and alien insurers (those domiciled in other countries) are also subject to a retaliatory tax. The Oregon Department of Revenue collects the excise tax. The Insurance Division of the Department of Consumer and Business Services collects the retaliatory tax.

Estate Taxes. Oregon's estate tax is imposed as a percentage of the Oregon estate. Because Oregon calculates its tax differently than the federal estate tax, the Oregon inheritance tax amount may be different from the federal tax amount, even though the Oregon tax is tied to the Federal Internal Revenue Code.

Cigarette and Other Tobacco Taxes. The State imposes an excise tax on the distribution of all tobacco products in Oregon. The tax rate on cigarettes is \$0.059 per cigarette (\$1.18 for a pack). The tax rate on the other tobacco products is 65 percent of the wholesale price, and \$0.50 per cigar. Moist snuff is

taxed at \$1.78 per ounce with a minimum of \$2.14 per container. The cigarette and other tobacco products taxes are distributed primarily to the General Fund, with the balance distributed equally among cities, counties and the Department of Transportation.

Other Taxes. A portion of the moneys collected from the Eastern Oregon Severance Tax, Western Oregon Severance Tax and Amusement Device Tax are allocated to the General Fund.

Fines and Fees

The fines and fees section of General Fund revenues includes State Court Fees, Secretary of State Corporation Fees, Criminal Fines and Assessments, and Securities Fees. These are fees imposed by agencies or the State courts for the filing of certain court-related or corporate documents and certain fines for violations of the law.

Liquor Sales Apportionment

The State imposes taxes on beer and wine manufactured or distributed in Oregon. The current tax rates are 8.4 cents per gallon of beer (\$2.60 per 31-gallon barrel), 67 cents per gallon of wine with 14 percent or less alcohol, and 77 cents per gallon of wine with 14 percent – 21 percent alcohol. The Oregon Liquor Control Commission (“OLCC”) exclusively imports and distributes beverages with 21 percent or more alcohol. The OLCC sets retail prices, on average, at 101 percent above the sum of costs, shipping, and federal taxes. The net revenue from these operations goes into an OLCC account, which distributes approximately 56 percent of the revenues to the General Fund.

Other Sources

Other major sources of General Fund revenue include charges for central services performed by DAS, interest earnings, and miscellaneous revenues.

General Fund Revenue Reduction Due to Income Tax Return (2% Surplus Kicker)

Under the Oregon Constitution, if biennium revenues actually received exceed estimated amounts to be received from either of two General Fund revenue categories, personal or corporate taxes, by more than two percent, a tax credit is issued to individual taxpayers and corporate taxpayers. This credit of excess revenues is popularly known as the “kicker.” For individuals, the refundable credit is based on the previous calendar year’s tax liability (for example, 2008 liability for the 2007-09 kicker). For corporations, the credit is based on the tax liability for the calendar year containing the end of the biennium (for example, 2009 liability for the 2007-09 kicker). The State may retain the corporate or individual kicker moneys only if two-thirds of each house of the Legislative Assembly votes to keep the kicker. See “Reserve Funds – *Rainy Day Fund*” below.

Lottery Funds

Revenues from the operation of the Oregon State Lottery comprise a significant source of money in the State’s budget. After the payment of prizes and operating the State Lottery, revenues are constitutionally dedicated to education, economic development, and natural resources program areas. According to the Oregon Constitution, approximately 84 percent of the total annual revenues from the sale of lottery tickets or shares shall be returned to the public in the form of prizes and net revenues benefiting the public purpose. After paying player prizes and operating expenses, the Lottery transfers the remaining revenues to the Administrative Services Economic Development Fund. The constitution and the Legislative Assembly direct how moneys from this fund are distributed. Presently, the Education Stability Fund and the Parks and Natural Resources Fund receive about 33 percent of total transfers. Debt

service payments, State school funding, and economic development efforts are the primary uses for the remainder. For a discussion on lottery revenue bonds, see “Debt Authority and Bond Issuance - Direct Revenue Bonds, *Lottery Revenue Bonds*” below.

Reserve Funds

Reserve Funds. The State has two budgetary reserve funds, the Education Stability Fund and the Oregon Rainy Day Fund that may be drawn on in the event of General Fund revenue shortfalls or economic downturns within a biennium subject to certain restrictions described below.

Education Stability Fund (“ESF”). Under the Oregon Constitution, 18 percent of the net proceeds from the State Lottery must be deposited in the ESF. The ESF retains earnings or spends them on public education. The Legislative Assembly also may appropriate other moneys or revenues to the ESF. The amount in the ESF may not exceed 5 percent of the amount that was accrued as revenues in the State’s General Fund during the prior biennium. If three-fifths of the Legislative Assembly approves, the Legislative Assembly can appropriate all or a portion of the money in the ESF for public education expenditures subject to the Governor declaring an emergency or the Legislative Assembly finding that at least one of the following conditions exists: (i) General Fund moneys in the next biennium will be at least three percent below current biennium appropriations; (ii) nonfarm employment has declined for two consecutive quarters in the last twelve months or (iii) General Fund revenues have dropped at least two percent below the current close of session forecast.

Rainy Day Fund (“RDF”). The 2007 Legislative Assembly authorized the establishment of the Oregon Rainy Day Fund, codified in ORS 293.144 to 293.148. ORS 293.146 provides for deposits to the RDF in an amount equal to up to one percent of the State’s General Fund appropriations for a biennium. The deposit is payable from the State’s General Fund ending balance at the end of a particular biennium. The actual amount of the deposit up to the one percent requirement will depend on the size of the State’s General Fund ending balance. Additional transfers to the RDF cannot be made if the balance in the RDF exceeds 7.5 percent of the amount of General Fund revenues collected in the prior biennium. If 3/5ths of the Legislative Assembly approves, the Legislative Assembly may appropriate money from the RDF if it finds that at least one of the following conditions exists: (i) General Fund moneys in the next biennium will be at least three percent below current biennium appropriations; (ii) nonfarm employment has declined for two consecutive quarters in the last twelve months or (iii) General Fund revenues have dropped at least two percent below the current close of session forecast.

The chart below presents historic amounts in the State’s reserve funds. The Oregon Constitution requires 18 percent of net lottery revenues be deposited in the ESF each year. Under state law, the Oregon Growth Account generally receives 5 percent of that amount.

TABLE 10
HISTORIC EDUCATION STABILITY
AND RAINY DAY FUNDS
(IN MILLIONS)

Fiscal Year Biennium	Education Stability Fund ^{1,2} (\$)	Rainy Day Fund (\$)	Total (\$)
1999-01	171.6		
2001-03	16.1		
2003-05	32.6		
2005-07	178.9		
2007-09	0.0	112.5	112.5
2009-11	5.1	10.4	15.5
2011-13 ³	7.6	61.8	69.4

Source: Office of Economic Analysis.

- (1) Effective July 1, 2003 the Oregon Constitution was amended to change the Education Endowment Fund to the Education Stability Fund and to increase the contribution from 15 percent of net proceeds to 18 percent of the net lottery proceeds.
- (2) Reflects net available amount in the ESF, exclusive of funds held in the Oregon Growth Account that may be illiquid and any subsequent transfers by the Legislative Assembly.
- (3) Projected by March 2013 Economic and Revenue Forecast. Additional historic detail and long range projections may be found in Table B.10 of the Forecast.

Other Funds Revenues

A description of the largest sources of the State’s Other Funds revenue follows below. For additional information on the Other Funds revenue amounts collected each biennium see Table 14, “Oregon Financial Information.”

Selective Sales and Use Taxes

Cigarette and Other Tobacco Taxes. As described above, a large part of the cigarette and other tobacco products taxes is distributed to the General Fund. Part of those taxes, however, is also distributed as Other Funds revenue. The Oregon Health Plan is the primary recipient of the cigarette tax distributed as Other Funds, with small amounts distributed to tobacco cessation programs and among cities, counties, and elderly and disabled transportation programs. The remaining tobacco products tax distributed as Other Funds goes primarily to the Oregon Health Plan with a small amount to tobacco cessation programs.

Motor Fuels Tax and Weight-Mile Tax. Oregon imposes a tax at the rate of 30 cents per gallon on the sale of gasoline and other fuels used to propel motor vehicles on the State’s highways. The Oregon Department of Transportation (“ODOT”) also assesses a weight-mile tax and road use fees on commercial vehicles that operate on public roads within Oregon. The weight-mile tax is based on the declared combination of vehicle weight and vehicle classification group. Revenues derived from the fuels tax, weight-mile tax and road use assessment fees are paid into the State Highway Fund.

Gross Receipts Business Taxes

Public Utilities. Regulated utilities operating within the State must pay in taxes up to 0.25 percent of gross operating revenues. These taxes are collected to cover the cost of utility regulation

performed by the Oregon Public Utility Commission.

Employer-Employee Taxes

Employment Taxes. Employers and employees in Oregon must pay unemployment taxes. The rate of unemployment tax depends upon the balance in the Unemployment Compensation Trust Fund as of August 31 of each year, the taxable payroll, and the amount of unemployment benefits paid.

Workers' Compensation Insurance. Oregon employers and employees also pay a workers' compensation assessment. The Director of the Department of Consumer and Business Services determines the amount of workers' compensation assessments.

Severance Taxes

Portions of the Eastern Oregon, Western Oregon and Other Severance taxes are paid to funds outside of the General Fund for various forest-related and other programs.

Licenses and Fees

Owners and operators of motor vehicles pay fees to ODOT for the licensing, registration, and titling of their vehicles. These moneys are dedicated to the State Highway Fund, the Student Driver Training Fund, and the Motor Vehicle Accident Fund. Another source of revenue comes from the sale of hunting and fishing licenses and tags and occupational licenses.

Other Revenues

Charges for Services. Major portions of these Other Funds revenues are collected by the Oregon University System and consist of auxiliary enterprise and service income. Sales of State Forest Lands and Common School Lands also provide income. This category also includes revenue from veterans' home loan repayments and retirement system contributions, as well as various other smaller sources.

Fines, Rents and Royalties, Bond Sales. The State collects income from State-owned properties that are leased or rented. It also collects royalties or similar returns through the Oregon University System and some loan and grant programs. Proceeds from the sale of bonds issued by the State are deposited into various program funds and accounts for disbursement to construction projects, or loan and grant programs operated by various State agencies.

Sales, Donations and Loan Repayments. The State from time to time sells State-owned properties, receives donations from various parties and receives repayments on loans made to governmental and private entities under various programs.

Federal Funds

Federal Funds are moneys received from the federal government. The Legislative Assembly may authorize receipt of Federal Funds for specific purposes. These funds must be appropriated by the Legislative Assembly and used in accordance with any restrictions placed on the funds by the federal government.

OREGON FINANCIAL INFORMATION

Table 11 presents historical State General Fund Revenues for three biennia and the 2011-13 biennia forecast.

TABLE 11
STATE OF OREGON
GENERAL FUND REVENUE STATEMENT
(IN THOUSANDS) ¹

	2005-07	2007-09	2009-11	2011-13
	Actuals ² (\$)	Actuals ³ (\$)	Actuals ⁴ (\$)	Forecast ⁵ (\$)
Taxes				
Personal Income	11,040,347	11,174,799 ⁶	10,467,225	12,044,871
Corporate Excise and Income	844,082	684,485	827,614	898,282
Insurance	114,718	93,328	90,496	97,074
Estate	168,933	196,820	168,864	211,138
Cigarette	88,789	81,649	76,837	74,722
Other Tobacco Products	32,553	34,518	47,328	58,156
Other	2,504	1,477	2,496	2,163
Fines and Fees				
State Court Fees	48,036	55,625	50,464	135,634
Secretary of State Corp. Fees	20,402	22,496	41,950	50,800
Criminal Fines and Assessments	88,741	72,855	59,460	72,825
Securities Fees	18,226	19,576	19,263	20,352
Central Service Charge	6,687	8,713	8,174	11,152
Liquor Apportionment	146,110	184,326	198,283	230,471
Interest Earnings	101,356	84,344	4,927	12,891
Miscellaneous Revenues	15,698	11,976	10,932	9,897
One-time Transfers	<u>4,824</u>	<u>86,104</u>	<u>447,383</u>	<u>191,795</u>
Gross General Fund Revenues	12,742,006	12,813,091	12,521,696	14,122,223
<i>Total Kicker Refunds/Offsets and Transfers</i>	0	(1,084,201)	0	(11,965)
Net General Fund Revenues	12,742,006	11,728,890	12,521,696	14,110,258
Beginning Balance	308,523	1,436,710	0	0
Anticipated Administrative Actions	(4,937) ⁷	(42,140) ⁷	(8,200) ⁷	(4,395) ⁷
Legislative Adopted Actions	0	(319,288) ⁸	0	0
Available Resources	<u>13,045,592</u>	<u>12,804,172</u>	<u>12,513,496</u>	<u>14,105,863</u>
Appropriations (Legislatively Adopted Budget)	11,641,200	12,793,534	13,432,875	13,723,770
Reversions	(32,318)	(762)	0	0
Administrative Actions	0	0	(954,613) ⁹	0
Projected Expenditures	<u>11,608,882</u>	<u>12,792,772</u>	<u>12,478,261</u>	<u>13,723,770</u>
Ending Balance	<u>1,436,710</u>	<u>11,400</u> ¹⁰	<u>35,235</u> ¹⁰	<u>382,093</u>

Source: State of Oregon, Chief Financial Office, and Oregon Office of Economic Analysis Revenue Forecasts.

Note: One-time Action and expenditure changes from SB 5562, HB 5015 and SB 581 are included for FY 2009.

- (1) Totals may not agree with sum of components due to rounding.
- (2) September 2007 Oregon Economic and Revenue Forecast, adjusted for reversions.
- (3) December 2009 Oregon Economic and Revenue Forecast, subject to adjustments through June 2010.
- (4) September 2011 Oregon Economic and Revenue Forecast.
- (5) March 2013 Oregon Economic and Revenue Forecast.
- (6) Not reduced by \$1,084,201 Kicker.
- (7) Interest expense associated with the Tax Anticipation Notes program, and is exclusive of any internal borrowing.
- (8) Equals 2005-07 portion of corporate surplus designated for the Rainy Day Fund.
- (9) Allotment reductions to agencies.
- (10) The ending balances for 2007-09 and 2009-11 biennia were transferred to the Rainy Day Fund so the beginning balances for 2009-11 and 2011-13 respectively, were assumed to be -0-.

Table 12 compares budgeted and actual General Fund Revenues for the 2001-03 through the 2009-11 biennia.

TABLE 12
STATE OF OREGON
ACTUAL GENERAL FUND REVENUES COMPARED WITH
LEGISLATIVELY ADOPTED BUDGET ESTIMATES
(IN BILLIONS)

<u>Biennium</u>		<u>Budget at Close of Session (\$) ¹</u>	<u>Actual (\$) ²</u>	<u>Difference (\$)</u>	<u>Percent Difference (%)</u>
2001-03	Personal Income Tax	9.445	7.700	(1.745)	(18.5)
	Corporate Income Tax	0.860	0.420	(0.440)	(51.2)
	<u>Other Revenues</u>	<u>0.750</u>	<u>1.246</u>	<u>0.496</u>	<u>66.1</u>
	Total	11.055	9.366	(1.689)	(15.3)
2003-05	Personal Income Tax	9.395	8.992	(0.403)	(4.3)
	Corporate Income Tax	0.540	0.641	0.101	18.7
	<u>Other Revenues</u>	<u>0.803</u>	<u>0.806</u>	<u>0.003</u>	<u>0.4</u>
	Total	10.738	10.439	(0.299)	(2.8)
2005-07	Personal Income Tax	10.124	11.040	0.916	9.1
	Corporate Income Tax	0.500	0.844	0.344	68.9
	<u>Other Revenues</u>	<u>0.703</u>	<u>0.858</u>	<u>0.155</u>	<u>22.1</u>
	Total	11.327	12.742	1.415	12.5
2007-09	Personal Income Tax	11.332	10.091	(1.241)	(11.0)
	Corporate Income Tax	0.921	0.685	(0.236)	(25.6)
	<u>Other Revenues</u>	<u>0.834</u>	<u>0.954</u>	<u>0.120</u>	<u>14.4</u>
	Total	13.087	11.729	(1.358)	(10.4)
2009-11	Personal Income Tax	11.546	10.467	(1.079)	(9.3)
	Corporate Income Tax	0.832	0.828	(0.004)	(0.5)
	<u>Other Revenues</u>	<u>1.198</u>	<u>1.227</u>	<u>0.029</u>	<u>2.4</u>
	Total	13.576	12.522	(1.054)	(7.8)

Source: *Oregon Economic and Revenue Forecasts.*

- (1) "Budget at Close of Session" reported in the September 2001, 2003, 2005, 2007, and 2009 Oregon Economic and Revenue Forecasts, respectively.
- (2) "Actuals" are reported the following biennium in the September or December 2003, 2005, 2007, 2009 and 2011 Oregon Economic and Revenue Forecasts, respectively.

Table 13 presents historical and forecasted Lottery Revenues and Distributions for the 2003-05 through the 2011-13 biennia.

TABLE 13
LOTTERY REVENUE STATEMENT
(IN MILLIONS)

	<u>2003-05</u> <u>Actual (\$)</u>	<u>2005-07</u> <u>Actual (\$)</u>	<u>2007-09</u> <u>Actual (\$)</u> ²	<u>2009-11</u> <u>Forecast (\$)</u> ³	<u>2011-13</u> <u>Forecast (\$)</u> ⁴
LOTTERY EARNINGS ¹					
Regular Lottery					
Sports Action	4.0	3.6	0.0	0.0	0.0
Traditional Lottery	<u>140.1</u>	<u>143.3</u>	<u>132.2</u>	<u>134.1</u>	<u>115.0</u>
Total Regular Lottery	144.1	146.9	132.2	134.1	115.0
Video Lottery	601.9	914.1	1,091.2	922.7	954.0
Other Earnings / Administrative Savings	<u>34.5</u>	<u>26.7</u>	<u>103.5</u>	<u>29.3</u>	<u>8.0</u>
Total Available to Transfer	<u>780.6</u>	<u>1,087.7</u>	<u>1,326.9</u>	<u>1,086.1</u>	<u>1,077.1</u>
ECONOMIC DEVELOPMENT FUND					
Beginning Balance	11.1	0.0	64.1	1.4	0.3
Resources					
Lottery Transfers	780.6	1,087.7	1,326.9	1,086.1	1,077.1
Other Resources ⁵	1.8	8.0	9.3	1.1	2.3
Total Available Resources to Transfer	<u>793.5</u>	<u>1,095.7</u>	<u>1,400.2</u>	<u>1,088.6</u>	<u>1,079.7</u>
Allocation of Resources					
County Economic Development ⁶	25.4	37.2	40.0	30.5	37.1
Education Stability Fund ⁷	140.5	195.8	238.8	195.5	193.9
Parks and Natural Resources Fund ⁸	117.1	163.2	199.0	162.9	161.6
OUS Sports Lottery Account ⁹	4.0	3.6	11.7	9.7	8.6
Gambling Addiction ⁹	6.5	8.3	12.1	8.7	10.6
County Fairs	2.5	3.3	3.6	2.8	3.6
Debt Service on Lottery Bonds ¹⁰	119.4	133.7	161.7	216.4	323.6
Other Legislatively Adopted Allocations ¹¹	<u>378.0</u>	<u>486.4</u>	<u>732.9</u>	<u>461.7</u>	<u>351.3</u>
Total Distributions	<u>793.5</u>	<u>1,031.6</u>	<u>1,399.9</u>	<u>1,088.3</u>	<u>1,090.3</u>
Ending Balance/Discretionary Resources	<u>0.0</u>	<u>64.1</u>	<u>0.4</u>	<u>0.2</u>	<u>(10.6)</u>

Source: State of Oregon, Department of Administrative Services, Office of Economic Analysis.

Note: Some totals may not foot due to rounding.

- (1) Actuals are reported in the odd year September Oregon Economic and Revenue Forecast unless otherwise noted.
- (2) Reported in the May 2009 Oregon Economic and Revenue Forecast.
- (3) Reported in the May 2011 Oregon Economic and Revenue Forecast.
- (4) Reported in the March 2013 Oregon Economic and Revenue Forecast.
- (5) Includes interest earnings of Economic Development Fund and reversions.
- (6) County Economic Development includes \$1,023,139 for the Economic Revitalization Team.
- (7) Eighteen percent of proceeds accrue to the Education Stability Fund, until the balance equals 5% of general fund revenues. Thereafter, 15% of proceeds accrue to the Oregon Capital Matching Account.
- (8) The Parks and Natural Resources Fund constitutional amendment requires the transfer of 15% of net proceeds to this fund.
- (9) One percent of net lottery proceeds are dedicated to Collegiate Athletics and Gambling Addiction programs, respectively. Certain limits are imposed by HB3199 and HB 2126 for 2009-11.
- (10) Figures reflect gross debt service on lottery bonds as of March 1, 2013. . Figures do not include future issuance.
- (11) Includes allocations to State School Fund and Other Agency Allocations

Table 14 summarizes Other Funds and Lottery Distributions by revenue source for the 2005-07 through the 2011-13 biennia.

TABLE 14
STATE OF OREGON
OTHER FUNDS AND LOTTERY DISTRIBUTIONS BY REVENUE SOURCE

<u>TAXES</u>	2007-09 ¹	2009-11 ²	2011-13 ²	2013-15 ²
	<u>Actual (\$)</u>	<u>Actual (\$)</u>	<u>Legislatively</u>	<u>Governor's</u>
			<u>Approved</u>	<u>Budget (\$)</u>
			<u>Budget (\$)</u>	<u>Budget (\$)</u>
SELECTIVE SALES AND USE TAXES				
Tobacco Taxes	420,856,663	375,581,575	374,205,000	350,577,774
Motor Fuels Taxes	842,985,199	886,844,384	1,105,858,226	1,066,193,226
Weight-Mile Taxes	449,214,083	454,146,776	610,756,359	593,105,782
Privilege Taxes	25,829,423	32,957,892	27,557,520	26,303,120
Other Selective Sales and Use Taxes	206,357,807	443,881,122	970,017,165	956,610,764
GROSS RECEIPTS BUSINESS TAXES				
Other Gross Receipts Business Taxes	3,945,380	3,156,554	3,500,000	3,500,000
Amusement Taxes	4,009,248	3,656,178	3,280,000	3,280,000
Public Utilities Taxes	177,922,724	152,750,305	150,960,666	161,896,076
Insurance Taxes	0	72,758,115	103,295,285	27,686,980
EMPLOYER-EMPLOYEE TAXES				
Employment Taxes	1,501,612,279	1,797,952,157	2,020,663,852	2,118,539,128
Workers' Compensation Insurance Taxes	77,130,779	62,043,193	104,637,732	112,638,003
Other Employer-Employee Taxes	618,371,527	608,779,277	620,621,938	626,626,351
SEVERANCE TAXES				
Eastern Oregon Severance Taxes	16,723	14,590	0	0
Western Oregon Severance Taxes	400,442	0	562,400	562,400
Other Severance Taxes	644,508	522,199	237,000	237,000
OTHER TAXES				
Forest Protection Taxes	40,460,582	27,726,216	27,519,148	43,567,824
Other Taxes	155,743,036	225,695,516	151,516,116	151,516,116
<u>LICENSES AND FEES</u>				
BUSINESS LICENSES AND FEES	419,047,961	301,830,787	318,337,041	318,814,150
NONBUSINESS LICENSES AND FEES				
Park User Fees	34,123,590	38,210,970	42,810,388	42,026,683
Vehicle Licenses	385,422,899	517,673,388	604,702,401	577,929,662
Drivers Licenses	68,177,426	63,913,322	71,882,076	77,763,237
Transportation Licenses and Fees	46,388,291	79,609,243	96,613,799	121,129,257
Hunter and Angler Licenses	81,929,342	96,012,437	110,237,475	106,950,649
Other Non-business Licenses and Fees	129,957,483	141,290,678	94,499,358	90,542,341
State Court Fees	6,632,031	44,748,062	16,323,143	5,567,072
<u>FEDERAL FUNDS AS OTHER FUNDS</u>	1,830,050,839	2,206,034,172	1,858,582,015	754,039,610
<u>OTHER REVENUES</u>				
CHARGES FOR SERVICES				
Tuition and Fees -- Higher Education	1,305,881,105	1,741,080,821	2,135,524,731	0
Fee Remissions -- Higher Education	-85,813,819	-123,013,899	-168,547,863	0
Aux. Enterprise & Service Fees Higher Ed.	435,805,302	492,801,356	547,065,787	0
Sales and Service Fees -- Higher Education	278,118,134	319,915,434	328,699,340	0
Other Charges for Services	882,935,425	2,699,767,414	2,825,696,066	3,805,074,868
FINES, RENTS, AND ROYALTIES				
Fines and Forfeitures	172,125,662	163,360,361	174,557,718	158,557,598
Rents and Royalties	126,585,545	136,805,044	98,572,546	115,837,844

TABLE 14 (Continued)

<u>OTHER REVENUES (continued)</u>	2007-09 ¹ <u>Actual (\$)</u>	2009-11 ² <u>Actual (\$)</u>	2011-13 ² Legislatively Approved <u>Budget (\$)</u>	2011-13 ² Governor's <u>Budget (\$)</u>
BOND SALES				
General Fund Obligation Bonds	216,904,596	382,255,806	38,766,592	225,708,294
Dedicated Fund Obligation Bonds	549,707,401	364,967,470	372,846,501	237,557,513
Lottery Bonds	492,062,892	186,899,106	183,614,369	140,533,450
Certificates of Participation	411,770,845	278,331,939	116,669,811	132,002,901
Revenue Bonds	978,159,419	1,022,270,645	908,031,774	1,559,721,774
Refunding Bonds	51,942,970	241,544,319	69,307,022	0
INTEREST EARNINGS				
Interest Income	253,959,538	8,322,611,079	7,733,653,929	13,739,809,116
SALES INCOME				
Liquor Sales	248,207,505	247,643,460	282,380,931	325,973,813
Pari-mutuel Receipts	3,207,081	3,258,980	3,009,800	3,347,965
State Forest Lands	141,604,849	135,334,092	121,258,234	137,278,242
Common School Land	23,134,842	18,950,331	38,494,000	38,582,000
Other Sales Income	66,738,164	49,681,395	54,337,457	27,552,704
DONATIONS AND CONTRIBUTIONS				
Donations and Grants (Non-Fed)	511,538,091	530,608,055	505,213,949	35,214,798
Retirement System Contribution	2,718,796,511	2,257,180,716	3,074,179,800	2,410,280,000
LOAN REPAYMENTS				
Housing Division Loan Repayment	201,457,724	225,747,024	213,664,618	222,176,258
Senior Citizen Property Tax Repayments	32,559,971	31,574,599	38,497,653	38,497,653
Veterans' Loan Repayments	88,706,787	78,377,015	75,000,000	75,000,000
Other Loan Repayments	178,522,161	259,695,209	151,396,684	158,764,329
Loan Proceeds	67,425,000	46,063,198	6,434,609	0
LOTTERY DISTRIBUTIONS	1,326,917,350	1,085,274,805	1,128,295,553	1,048,795,584
OTHER REVENUES	<u>2,113,921,564</u>	<u>2,009,443,456</u>	<u>1,882,191,505</u>	<u>1,775,530,470</u>
TOTAL OTHER FUNDS & LOTTERY DISTRIBUTIONS	<u>21,320,112,880</u>	<u>31,846,218,338</u>	<u>32,427,989,218</u>	<u>34,749,410,379</u>

Source: State of Oregon, Department of Administrative Services, Chief Financial Office.

- (1) Reported in 2011-13 Governor's Budget, Schedule II.
- (2) Reported in 2013-15 Governor's Budget, Schedule II.

Table 15 summarizes expenditures by statewide program area for all fund types for the 2007-09 through the 2013-15 biennia.

TABLE 15
SUMMARY OF EXPENDITURES BY PROGRAM AREA BY FUND
(IN MILLIONS)

Program Area	2007-09 Actual Expenditures ¹				2009-11 Actual Expenditures ²				2011-13 Legislatively Adopted Budget ²				2013-15 Governor's Budget ²							
	General Fund	Lottery Funds	Other Funds	Federal Funds	Total Funds	General Fund	Lottery Funds	Other Funds	Federal Funds	Total Funds	General Fund	Lottery Funds	Other Funds	Federal Funds	Total Funds	General Fund	Lottery Funds	Other Funds	Federal Funds	Total Funds
Education	\$ 6,752	\$ 1,145	\$ 4,714	\$ 1,342	\$ 13,953	\$ 6,433	\$ 702	\$ 1,801	\$ 1,857	\$ 13,794	\$ 6,754	\$ 641	\$ 4,877	\$ 1,319	\$ 13,590	\$ 7,642	\$ 395	\$ 271	\$ 1,465	\$ 9,772
Human Services	3,196	12	1,364	7,334	11,907	3,285	10	4,245	10,186	17,725	3,864	10	5,767	10,956	20,598	4,386	11	6,428	14,433	25,258
Public Safety	1,828	7	647	449	2,931	1,779	7	721	485	2,992	1,953	7	537	480	2,977	2,120	5	559	497	3,181
Judicial Branch	522	---	55	1	578	496	---	93	1	590	590	---	60	1	650	633	---	82	1	716
Economic & Community Development	34	128	4,355	679	5,196	27	115	4,134	3,740	8,015	25	149	3,719	1,678	5,572	25	145	3,045	436	3,651
Natural Resources	165	198	958	176	1,497	141	169	964	244	1,518	131	169	1,142	320	1,762	167	169	1,156	267	1,760
Transportation	5	47	3,009	72	3,132	17	80	3,645	119	3,862	2	73	3,618	142	3,835	3	95	3,862	128	4,088
Consumer and Business Services	13	---	908	2	922	12	---	577	4	593	11	---	596	9	617	12	---	618	5	635
Administration	188	7	8,009	11	8,215	182	10	8,080	10	8,283	202	14	8,810	16	9,042	194	15	10,674	10	10,894
Legislative Branch	78	---	39	---	116	71	---	8	---	79	83	---	7	---	90	88	---	6	---	94
Miscellaneous-(Incl. E-Board)	---	---	---	---	---	---	---	---	---	---	109	---	---	---	109	131	---	---	---	131
Statewide Total Expenditures³	\$12,781	\$1,544	\$24,058	\$10,066	\$48,447	\$12,442	\$1,092	\$27,270	\$16,647	\$57,451	\$13,724	\$1,063	\$29,134	\$14,923	\$58,843	\$15,401	\$835	\$26,701	\$17,242	\$60,180

Source: State of Oregon, Department of Administrative Services, Chief Financial Office.

- (1) Reported in Governor's Balanced Budget, 2011-13.
- (2) Reported in Governor's Balance Budget, 2013-15.
- (3) Totals may not agree with sum of components due to rounding.

STATE OF OREGON INVESTMENT POLICIES

The Office of the State Treasurer (the “OST”) invests moneys held on behalf of state agencies and participating local governments through two pooled investment vehicles or through separate accounts with guidelines specific to the agency’s investment needs. Some of the agency moneys invested by the OST are bond proceeds or moneys used to pay bond debt service. The State’s investment policies are governed by Oregon Revised Statutes and the Oregon Investment Council (the “OIC”). The OIC, created by a 1965 legislative act, establishes investment policies for all State funds. The OST is responsible for implementing those policies. The Governor appoints four of the OIC’s five voting members, who are subject to confirmation by the Oregon Senate. The State Treasurer serves by statute. OST pooled investment vehicles are the statutory Oregon Short-Term Fund (the “OSTF”) and the internally established Oregon Intermediate-Term Pool (the “OITP”).

The OSTF is a short-term cash investment vehicle created by statute to invest State agency and Oregon local government moneys. The OSTF is not registered with the U.S. Securities and Exchange Commission as an investment company. The OST manages the OSTF within guidelines established by the OIC, with advice from and in consultation with, the OSTF Board. Primary investment objectives established for the fund are, in order of priority: preservation of principal, liquidity and yield. As of January 31, 2013, the OSTF totaled approximately \$12.6 billion.

The guidelines currently in place for the OSTF require at least 50 percent of the portfolio to mature or re-price within 93 days; no more than 25 percent of the portfolio may have a maturity longer than one year; and no investments may have a final maturity longer than three years as measured from the settlement date of the initial transaction. Total weighted average credit quality of the portfolio must be a minimum of AA or Aa2 by Standard & Poor’s, or Moody’s Investors Services, respectively. The guidelines currently in use for the OSTF, allow the following:

- Investments with minimum long-term ratings of AA-, Aa3, or AA-, or better, by Standard & Poor’s, Moody’s Investors Services, or Fitch Ratings, respectively, consisting of:
 - U.S. Treasury Securities
 - Senior Unsecured Debt Obligations guaranteed by the Federal Deposit Insurance Corporation (“FDIC”) under the Temporary Liquidity Guarantee Program (“TLGP”)
 - U.S. Government Agency Securities
 - U.S. dollar-denominated Foreign Government Securities and their Instrumentalities
- Commercial Paper with at least two minimum short-term ratings of A-1, P-1 or F1 by Standard & Poor’s, Moody’s or Fitch Ratings, respectively.
- Corporate indebtedness with minimum long-term ratings of A-, A3 or A- by Standard & Poor’s, Moody’s or Fitch Ratings, respectively, at the time of purchase.
- Certificates of deposit issued by banks in Oregon and insured by the FDIC or collateralized according to ORS Chapter 295, and negotiable certificates of deposit and banker’s acceptances from domestic commercial banks with minimum long-term ratings of AA-, Aa3 or AA- by Standard & Poor’s, Moody’s or Fitch Ratings, respectively.
- Municipal debt obligations (agencies, instrumentalities, and political subdivisions) that have long-term ratings of AA-, Aa3 or AA-, or better, or are rated in the highest category for short-term municipal debt by Standard & Poor’s, Moody’s Investors Services, or Fitch Ratings, respectively, at the time of purchase.
- Repurchase agreements and reverse repurchase agreements that mature in no more than 90 days are fully collateralized with cash, government obligations or obligations of agencies of the federal government and are entered into with primary dealers as recognized by the Federal Reserve Bank or the State’s custodial bank and certain other types of debt or similar instruments.

The OITP is an alternative to the OSTF for State agencies. The moneys in the OITP are pooled and managed by OST to invest dollars not needed to cover short-term needs and able to withstand price volatility to achieve returns often associated with longer-term investments. The OITP is a voluntary investment vehicle for State agencies with funds that are allowed to be invested.

The OITP's management objective is to maximize total return, which includes investment value and coupon income within the desired risk parameters and fixed income investments prescribed in the portfolio guidelines. The OITP's benchmark index is the BofA Merrill Lynch 1-5 Year AAA-A U.S. Corporate & Government Index. The OITP is not structured to provide 100 percent net asset value on each participant's initial investment at all times. For consistency with the portfolio's total return objective, the value of each participant's investment is determined on a proportional basis to the net market value of the entire portfolio. The OITP is not registered with the U.S. Securities and Exchange Commission as an investment company.

Eligible investments are detailed in the OITP guidelines, but in general, the OITP may invest, subject to diversification requirements, in several types of investment grade rated debt market instruments denominated in U.S. dollars. These may include:

- Obligations of U.S. and non-U.S. private issuers;
- Obligations of the U.S. government and its agencies and instrumentalities;
- Obligations issued or guaranteed by non-U.S. governments and instrumentalities;
- Taxable debt securities issued by U.S. states or local governments and their agencies, authorities and other U.S. state government-sponsored enterprises;
- Repurchase agreements and Reverse repurchase agreements.

The OITP invests in securities that, at the time of purchase, are investment grade rated by nationally recognized rating agencies, such as Moody's or Standard & Poor's. The overall portfolio must maintain an average modified duration of 3.0 years or less. Limitations on individual investment terms to maturity vary by security type, but in general, securities have a maximum term of 10.25 years.

Except for U.S. Treasury and U.S. Agency securities, no more than 5 percent of the OITP may be invested in the securities of any one issuer and a maximum of 25 percent may be invested in any one of 10 broad sectors as defined by the Bloomberg Industry Classification System ("BICS").

INITIATIVE PETITIONS, LEGISLATIVE REFERRALS AND REFERENDUM PETITIONS

Initiative Petitions

General. The State Constitution, Article IV, Section 1, reserves to the people of the State (1) 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 and (2) the referendum power to approve or reject at an election any act passed by the Legislative Assembly that does not become effective earlier than 90 days after the end of the legislative session. The Legislative Assembly may also refer an act to the voters for approval or rejection.

State law permits any person to file a proposed initiative with the Secretary of State's office without payment of fees or other burdensome requirements. Although a large number of initiative measures are submitted to the Secretary of State's office, a much smaller number of petitions contain sufficient signatures to be placed on the ballot. Because many proposed initiative measures are submitted that do not qualify for the ballot, the State 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 State does not ordinarily disclose information about proposed initiative measures that have not qualified for the ballot.

Requirements for Proposed Initiative Measures to Be Placed on the Ballot. To place a proposed initiative on a general election ballot, the proponents must submit to the Secretary of State initiative petitions signed by the 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. 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.

Although a large number of initiative measures are submitted to the Secretary of State’s office, a much smaller number of petitions contain sufficient signatures to be placed on the ballot. 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. Historically, a larger number of initiative measures have qualified for the ballot than have been approved by the electors.

<u>Year of General Election</u>	<u>Number of Initiatives that Qualified</u>	<u>Number of Initiatives that Passed</u>
2002	7	3
2004	6	2
2006	10	3
2008	8	0
2010	4	2
2012	7	2

Source: Elections Division, Oregon Secretary of State.

Legislative Referrals and Referendum Petitions

The Legislative Assembly may refer constitutional amendments or statutory changes to the Oregon voters for their approval. In addition, within 90 days after the end of a legislative session, any person may file a petition seeking to have any act passed by the Legislative Assembly that does not become effective earlier than 90 days after the end of the legislative session referred to the voters for their approval or rejection at the next general election, or at a special election provided for by the Legislative Assembly. To place a proposed referendum on the ballot, the proponents must submit to the Secretary of State within 90 days after the end of the legislative session referendum petitions signed by the number of qualified voters equal to four percent 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. Any elector may sign a referendum petition for any measure on which the elector is entitled to vote. An act approved by the voters through the referendum process becomes effective 30 days after the date of the election at which it was approved. A referendum on part of an act does not prevent the remainder of the act from becoming effective as provided in the act.

PENSION AND POST EMPLOYMENT BENEFITS

The State is one of many participants in the statewide Oregon Public Employees' Retirement System ("PERS" or "System"). The State participates in three retirement pension benefit programs provided through PERS and three retirement healthcare benefit programs (two provided through PERS and one provided by the State's Public Employees' Benefit Board ("PEBB")). Most public employers in Oregon, including State government employers, participate in PERS.¹ Benefits provided through PERS are paid from the Oregon Public Employees' Retirement Fund ("OPERF"). The Public Employees' Retirement Board (the "PERS Board") administers PERS and is responsible for setting policies and for providing administrative direction to PERS.

System Pension Programs

The three PERS pension programs are composed of two defined benefit programs and one program that has features similar to a defined contribution plan. In a defined benefit plan, the investment risk for the plan assets is borne by the employer. In a defined contribution plan, the investment risk for the plan assets is borne by the employee. A combination of participating employer contributions (determined by the PERS Board based upon the results of actuarial valuations), investment earnings and employee contributions (determined by statute, currently 6 percent of salaries and 7 percent for judges) fund these pension programs.

Employees hired before January 1, 1996 are known as "Tier 1" participants. The retirement benefits applicable to Tier 1 participants are based primarily on a defined benefit model. Employees hired on or after January 1, 1996 and before August 29, 2003 are known as "Tier 2" participants. The Tier 2 program also provides a defined benefit but with lower expected costs to employers than under the Tier 1 benefit. Employees hired on or after August 29, 2003 are participants in a successor retirement program to the Tier 1 and Tier 2 retirement programs (the "T1/T2 Pension Programs") known as the Oregon Public Service Retirement Plan ("OPSRP").

PERS also offers a program that has features similar to a defined contribution benefit known as the Individual Account Program ("IAP"). Effective January 1, 2004, active Tier 1, Tier 2 (T1/T2) and OPSRP employees became members of the IAP. Tier 1 and Tier 2 employees retain their existing T1/T2 Pension Program account, but the IAP account receives any future member contributions.

The current pensions programs are the result of legislation enacted in 2003 that made significant changes to PERS. Several Oregon employees filed lawsuits challenging various aspects of the 2003 legislation. All of the significant challenges to the PERS legislation and resulting actions by the PERS board have been resolved except a question involving the transfer of \$61 million to a contingency reserve account. In that case, the Oregon Supreme Court held that it did not have enough information to determine whether the transfer was reasonable and remanded that issue back to the trial court. The most recent actuarial valuations of the PERS system take into account the court decisions in existence when the valuations were completed.

¹ In addition, the Oregon Health and Science University and the Oregon University System have each established alternatives to the participation in PERS. See footnote 12 in the State's Basic Financial Statements in Appendix B.

System Pension Plan Asset and Liabilities Valuations

Oregon statutes require an actuarial valuation of the System by a competent actuary at least once every two years. Under current practice, actuarial valuations are performed annually, but only valuations as of the end of each odd-numbered year are used to determine annual required employer contribution rates. Valuations are released approximately one year after the valuation date. The PERS current actuary, Milliman, Inc. replaced the prior actuary, Mercer (US), Inc. (“Mercer”) in January 2012.

The PERS actuary released its December 31, 2009 valuation for the System (the “2009 System Valuation”) on October 27, 2010 and its December 31, 2010 valuation for the System (the “2010 System Valuation”) on November 10, 2011. The 2009 System Valuation and the 2010 System Valuation include actuarial valuations for the T1/T2 Pension Programs and OPSRP. The actuarial valuation report for the System as of December 31, 2011 was released on October 26, 2012. In connection with the T1/T2 Pension Programs, the State is pooled with certain local governments and community college districts (the “State and Local Government Rate Pool” or “SLGRP”). Because OPSRP’s assets and liabilities are pooled on a program-wide basis, the State is pooled with all Oregon local governments in connection with OPSRP. The PERS actuary released the State’s individual 2009 valuation report as of December 31, 2009 (the “2009 State Valuation”) on September 27, 2010, the State’s individual 2010 valuation report as of December 31, 2011 (the “2011 State Valuation”) on September 28, 2012, which provides the State’s portion of the unfunded actuarial liabilities of the SLGRP and OPSRP based on the State’s proportionate share of total System covered payroll.

An employer’s unfunded actuarial liability (“UAL”) is the excess of the actuarially determined present value of the employer’s benefit obligations to employees over the existing actuarially determined assets available to pay those benefits. The following methods and assumptions adopted by the PERS Board are the basis for the actuarial valuations:

Assumption/Method

Actuarial Cost Method:	Projected Unit Credit
UAL Amortization Method:	
T1/T2 Programs	Level Percentage of Payroll over 20 years (fixed)
OPSRP	Level Percentage of Payroll over 16 years (fixed)
Asset Valuation Method:	Market Value ¹
Investment Rate of Return:	8.00%
Payroll Growth Rate:	3.75%
Inflation Level:	2.75%
Contribution Rate Stabilization Method:	Contribution rate may increase or decrease by 3% to 6% of payroll or by 20% of the previous rate; whichever is greater, when an employer’s funded status is between 80% and 120%. At a funded status of 70% or less, or 130% or more, the limitation doubles to 6% of payroll or 40% of the previous rate, whichever is greater. At a funded status between 70% and 80% or 120% and 130%, the limitation increases in increments between 3%-6% of payroll or 20%-40% of the previous rate, whichever is greater.

(1) Market value of assets reduced by value of assets in statutory reserves (contingency, capital preservation and rate guarantee reserves).

In addition to the actuarial methods and assumptions listed above, the actuary uses other methods, procedures and economic and demographic assumptions when performing its actuarial valuations.

The table below shows the actuarial value of assets and liabilities, the UALs and surpluses and funded ratios for PERS pension plans for the past ten years. For similar information regarding the PERS-sponsored retirement healthcare benefit programs see Tables 22 and 23.

TABLE 16
PUBLIC EMPLOYEES' RETIREMENT SYSTEM – SYSTEMWIDE PENSION
HISTORICAL ACTUARIAL FUNDED RATIOS
(IN MILLIONS) ¹

Calendar Year Ending	Actuarial Value of Assets² (\$)	Actuarial Liability (\$)	Unfunded Actuarial Liability (\$)	Funded Ratio (%)
2002	35,446.9	38,947.0	3,500.1	91.0
2003	42,753.3	44,078.1	1,324.8	97.0
2004 ³	45,708.3	47,398.6	1,690.3	96.4
2005 ^{4,5}	51,403.9	49,294.0	-2,109.9	104.3
2006	56,616.5	51,252.9	-5,363.6	110.5
2007	59,327.8	52,871.2	-6,456.6	112.2
2008	43,520.6	54,259.5	10,738.9	80.2
2009	48,729.2	56,810.6	8,081.4	85.8
2010	51,583.6	59,329.5	7,745.9	86.9
2011 ⁶	50,168	61,198	11,030	82.0

Sources: Actuarial valuations of System for years 2002-2010; 2011 State Valuation for year 2011.

- (1) Composed of Tier 1/Tier 2 and OPSRP pensions but excluding retiree healthcare subsidies of RHIP and RHIPA.
- (2) Includes proceeds of pension bonds issued by Oregon local governments and the State.
- (3) In 2003, the Oregon Legislative Assembly enacted significant changes to the System and created OPSRP. The 2003 legislative reforms were enacted in response to a growing UAL of the System and to increasing charges to public employers to fund the System. Two actuarial valuations of the System were performed as of December 31, 2001, one prior to and one after the enactment of the 2003 reform legislation. See "Litigation – Challenges Related to PERS" for discussion on litigation regarding the 2003 reform legislation.
- (4) Effective with the 2004 System valuation, the cost method changed from Entry Age Normal to Projected Unit Credit, and the actuarial value of assets was changed from a four-year smoothed value to market value among other changes.
- (5) Assets and liabilities for OPSRP are first valued in the 2005 OPSRP Valuation.
- (6) Only rounded numbers currently available for 2011.

The following table shows the investment returns for the OPERF.

TABLE 17
OREGON PUBLIC EMPLOYEES
RETIREMENT FUND INVESTMENT RETURNS ¹

Year Ending	Net Returns (%)
2002	-7.9
2003	22.7
2004	14.5
2005	13.2
2006	15.3
2007	9.7
2008	-27.0
2009	19.4
2010	12.6
2011	2.2
2012	14.3

Source: Office of the State Treasurer.

- (1) Regular account, before administrative expenses.

The funded status of the pension programs may change depending on the market performance of the securities that OPERF is invested in, future changes in compensation and benefits of covered employees,

demographic characteristics of members and methodologies and assumptions used by the actuary in estimating the assets and liabilities of PERS. Additionally, the market value of the investments held in OPERF is determined using various sources. For descriptions of the methodologies applied by the Office of the Oregon State Treasurer to determine the market value of OPERF investments see the *State of Oregon Comprehensive Financial Report for the Fiscal Year ended June 30, 2011* Note 1.D., captioned “Deposits and Investments” and the *Oregon Public Employees’ Retirement System Comprehensive Financial Report for the Fiscal Year Ended June 30, 2011*, Note 15.B. captioned “Summary of Significant Accounting Policies”.

State of Oregon Experience

The following table shows the number of active State members in the T1/T2 Pension Programs and OPSRP.

**TABLE 18
ACTIVE STATE PERS MEMBERS**

<u>Year Ending</u>	<u>Active T1/T2 Members</u>	<u>Active OPSRP Members¹</u>	<u>Total</u>	<u>Percent Change (%)</u>
2002	41,389	---	41,389	---
2003	40,010	---	40,010	-3.3
2004	37,419	---	37,419	-6.5 ²
2005	34,588	6,583	41,171	10.0
2006	34,151	8,411	42,562	3.4
2007	32,140	10,684	42,824	0.6
2008	30,615	13,643	44,258	3.3
2009	29,154	16,689	45,843	3.6
2010	27,569	20,288	47,857	4.2
2011	25,623	19,751	45,374	-5.2

Source: Oregon PERS.

- (1) Information regarding OPSRP membership not available prior to 2005 because first year actuarial valuation of OPSRP is as of December 31, 2005.
- (2) Decrease in percentage of active State PERS members reflects lack of information regarding OPSRP membership prior to 2005. New employees hired after August 29, 2003 became members of OPSRP.

State Pension Plan Asset and Liabilities

The following table shows the State’s portion of the actuarial value of assets and liabilities, UALs and surpluses and funded ratios for PERS pension programs for the past ten years for which actuarial valuations were performed. For the T1/T2 Pension Programs, the State’s portion of PERS’ assets and liabilities is based upon the State’s proportionate share of SLGRP’s pooled covered payroll (as of December 31, 2011, approximately 47.82 percent) and reflects proceeds from the State pension bonds issued in October 2003 in the aggregate principal amount of \$2.1 billion (the “State Pension Bonds”). For OPSRP, the State’s proportionate share is based upon the State’s share of total System covered payroll (as of December 31, 2011, approximately 27.60 percent). The State’s proportionate liability may increase if other participants fail to pay their full employer contributions.

TABLE 19
STATE OF OREGON - PENSION
HISTORICAL ACTUARIAL FUNDED RATIOS
(IN MILLIONS)

Calendar Year Ending	Actuarial Value of Assets² (\$)	Actuarial Liability (\$)	Unfunded Actuarial Liability (\$)	Funded Ratio (%)
2002	11,421.3	10,724.3	(697.0)	106.5
2003	12,348.7	12,157.5	(191.1)	101.6
2004 ³	13,084.7	13,217.0	132.3	99.0
2005 ⁴	14,155.8	13,339.1	(816.7)	106.1
2006	15,598.1	13,823.3	(1,774.8)	112.8
2007	15,769.3	13,611.1	(2,158.2)	115.9
2008	11,600.1	14,036.0	2,435.9	82.6
2009	13,014.7	14,771.7	1,757.0	88.1
2010	13,529.8	15,116.4	1,586.5	89.5
2011	13,208.2	15,660.0	2,451.8	84.3

Source: *State Actuarial Valuation Reports.*

- (1) Includes State Pension Bonds proceeds beginning in 2002. Although the State Pension Bonds were issued in October 2003, the State's PERS actuary included the proceeds of the State Pension Bonds in the State's 2002 valuation by discounting the proceeds on a present value basis to December 31, 2002.
- (2) Effective with the 2004 valuation, the cost method was changed from Entry Age Normal to Projected Unit Credit, and the actuarial value of assets was changed from a four-year smoothed value to market value.
- (3) Assets and liabilities for OPSRP are first valued in the 2005 OPSRP Valuation.

State Employer Contribution Rates

At the end of each odd-numbered year, actuarial valuations determine the employer contribution rates that are officially set by the PERS Board. The 2009 State Valuation contains the current employer contribution rates. These rates are effective for the 2011-13 biennium. The 2011 State Valuation contains the State's employer contribution rates for the 2013-15 biennium. All employers participating in PERS are required to make their contribution to PERS based on the employer contribution rates set by the PERS Board.

The following table shows the State’s employer contribution rates expressed as percentages of the actuarially determined covered payroll for PERS pension and PERS-sponsored healthcare costs for the 2011-13 biennium based on the 2009 State Valuation and the 2013-15 biennium based on the 2011 State Valuation.

TABLE 20
STATE CONTRIBUTION RATES

<u>Payrolls Paid</u>	<u>2011-13 (%)</u>	<u>2013-15 (%)</u>
T1/T2	10.73	15.36
OPSRP General Services	8.05	12.54
OPSRP Police and Fire	10.76	15.27
Judiciary ¹	18.33	22.31
Blended Rate	9.60	14.49 ²

Sources: 2009 State Valuation, State Judiciary Valuation as of December 31, 2009, 2011 State Valuation and PERS.

- (1) Members of the Oregon state judiciary are participants of the Judge Retirement Program and the employee contribution rate for the Judge Retirement Program is calculated separately. According to the 2009 System Valuation and the State Judiciary Valuation as of December 31, 2009, the value of the covered payroll of the judiciary as of December 31, 2009 is approximately \$17.7 million, compared to the value of the covered payroll of all Pension Programs of approximately \$8,512.2 million as of December 31, 2009.
- (2) This preliminary blended rate was calculated by the PERS Actuary before completion of the 2011 State Valuation and adoption of the 2013-15 contribution rates by the PERS Board. A final blended rate is not yet available.

State Contributions

The following table shows the amount of State contributions paid to PERS for the three pension programs and the PERS-sponsored health care programs and the amount paid for the debt service on the State Pension Bonds.

TABLE 21
STATE CONTRIBUTIONS TO PERS AND PERS-RELATED DEBT SERVICE
(IN MILLIONS)
As of June 30, 2011

Fiscal Year Ending 6/30	State Contribution to PERS ¹ (\$)	Percent Change (%)	Employee Contribution ² (\$)	POB Debt Service ³ (\$)	Total (\$)	Percent Change (%)
2002	189.4	-2.1	103.5	---	292.9	-5.7
2003	195.1	3.0	102.7	---	297.8	1.7
2004	132.0	-32.3	110.1	---	242.1	-18.7
2005	107.6	-18.5	108.7	111.5	327.8	35.4
2006	176.2	63.8	115.9	118.8	410.9	25.4
2007	179.2	1.7	123.8	120.8	423.8	3.1
2008	160.8	-10.3	131.9	131.3	424.0	0.0
2009	170.8	6.2	141.2	136.9	448.9	5.9
2010 ⁴	87.9	-48.5	141.8	142.7	372.4	-17.0
2011	100.5	14.3	141.6	148.8	390.9	5.0

Sources: Footnote 12, State of Oregon Basic Financial Statements for Fiscal Years (FYs) ended June 30, 2005 and 2004; Oregon State Controller's Division for FY ended June 30, 2006; Footnote 13, State of Oregon Basic Financial Statements for FYs ending June 30, 2007, 2008 and 2009; and Footnotes 15 and 16, State of Oregon Basic Financial Statements for FY ending June 30, 2010 and June 30, 2011; PERS and Office of the State Treasurer.

- (1) Amount does not include employer paid employee portion but does include amounts paid for RHIA and RHIP and discretely presented component units (SAIF Corporation and Oregon Health and Science University) as well as primary government.
- (2) The State pays employee contributions. Years 2007 through 2010 amounts are based on 6 percent contribution rate and actual annual covered payroll. Years 2003 through and including 2006 amounts based on 6 percent contribution rate and combined valuation-covered payroll from actuarial valuations of the System.
- (3) Fiscal Year State Pension Bonds debt service. Fiscal year 2004 and 2005 debt service is net of capitalized interest. The State issued Pension Bonds October 31, 2003. As of June 30, 2011, \$2.02 billion principal amount of State Pension Bonds remain outstanding.
- (4) The State's PERS contribution rate was 6.71 percent of payroll from January 1, 2009 through June 30, 2009. That rate dropped to 3.17 percent of payroll for the second half of 2009 and all of 2010, resulting in a substantial decrease in the State's contribution to PERS.

Other Post-Employment Benefits

In addition to pension benefits, the State provides healthcare benefits (medical, vision and dental) to approximately 55,922 retirees through PERS health insurance programs. At the time of retirement, State employees can choose whether to obtain post-employment benefits through PERS or through PEBB.

PERS-Sponsored Retirement Health Insurance Account Plan ("RHIA")

Retirees who receive pension benefits through the T1/T2 Pension Programs and are enrolled in certain PERS-administered health insurance programs may receive a subsidy towards the payment of health insurance premiums. ORS 238.420 established the Retirement Health Insurance Account program under which qualified retirees may receive a subsidy for Medicare supplemental health insurance of up to \$60 per month towards the cost of their health insurance premiums. The State's employer contribution rate for the RHIA program for the 2011-13 biennium is 0.59 percent of payroll and is a component of the State blended employer contribution rate of 9.6 percent for the 2011-13 biennium. The State's employer contribution rate for the RHIA program for the 2013-15 biennium is 0.59 percent of payroll and is a

component of the estimated State blended employer contribution rate of 14.49 percent for the 2013-15 biennium. The employer contribution rate for RHIA paid by the State is based on the annual required contribution (ARC) calculated for the biennium. As of December 31, 2011 the RHIA program has an unfunded actuarial liability of approximately \$221.5 million representing a funded ratio of approximately 52.0 percent, of which \$61.6 million is allocable to the State.

TABLE 22
RETIREMENT HEALTH INSURANCE ACCOUNT (RHIA)
HISTORICAL ACTUARIAL FUNDED RATIOS
(IN MILLIONS) ¹

Calendar Year <u>Ending</u>	Program <u>UAL (\$)</u>	Program <u>Funded Ratio (%)</u>	State Share <u>of UAL (\$)</u>
2003	405.4	22.4	111.1
2004	408.9	26.6	111.7
2005	314.9	36.5	84.7
2006	290.3	43.3	77.1
2007	248.8	50.2	66.5
2008	310.2	37.2	83.9
2009	296.9	41.9	82.7
2010	314.8	42.5	85.6
2011	221.5	52.0	61.6

Source: Actuarial valuations of System; PERS.

PERS-Sponsored Retiree Health Insurance Premium Account Plan (“RHIPA”)

Another subsidy is available to pre-Medicare-age State retirees through the Retiree Health Insurance Premium Account plan. On or before January 1 of each year, the PERS Board calculates the average difference between the health insurance premiums paid by retired State employees under contracts entered into by the PERS Board and health insurance premiums paid by State employees who are not retired. RHIPA authorizes payment of this average difference to qualified retired State employees. The State’s employer contribution rate for the RHIPA plan for the 2011-13 biennium is 0.16 percent of payroll and is a component of the State blended employer contribution rate of 9.60 percent for the 2011-13 biennium. The State’s employer contribution rate for the RHIPA program for the 2013-15 biennium is 0.27 percent of payroll and is a component of the estimated State blended employer contribution rate of 14.49 percent for the 2013-15 biennium. The employer contribution rate for RHIPA paid by the State is based on the ARC calculated for the biennium. As of December 31, 2011, the RHIPA program had an unfunded actuarial liability of approximately \$29.9 million, representing a funded ratio of approximately 13.1 percent, all of which is allocable to the State.

TABLE 23
RETIREE HEALTH INSURANCE PREMIUM ACCOUNT (RHIPA)
HISTORICAL ACTUARIAL FUNDED RATIOS
(IN MILLIONS) ¹

Calendar		
<u>Year Ending</u>	<u>Program UAL (\$)</u>	<u>Program Funded Ratio (%)</u>
2002	28.4	9.0
2003	21.0	16.0
2004	23.0	18.4
2005	20.9	22.7
2006	16.4	29.9
2007	15.5	33.6
2008	15.6	26.7
2009	18.1	26.1
2010	28.2	16.8
2011	29.9	13.1

Source: *Actuarial valuations of System.*

(1) RHIPA benefits are only available to State employees; therefore, the RHIPA plan UAL is allocable entirely to the State.

PEBB Retiree Health Insurance Benefit Plan

In addition to the pension and healthcare benefits provided to retired State employees through PERS, the State provides healthcare benefits (medical, vision and dental) through PEBB to approximately 2,000 retirees who do not receive healthcare benefits through PERS and are not yet eligible for Medicare. PEBB’s obligations to provide benefits are State obligations for accounting purposes. The PEBB OPEB obligation exists because the State is providing an implicit rate subsidy to retirees for PEBB benefits that are offered to both retirees and active employees, where the retiree pays the same premium amount as active employees.

On June 25, 2010, the State’s actuary for PEBB, released an actuarial valuation as of July 1, 2009 (the “2009 PEBB Valuation”) for purposes of complying with the OPEB standards (GASB 43 and GASB 45). The valuation was prepared using the Entry Age Normal actuarial cost method, an amortization period of 30 years, and an assumed discount rate of 4.0 percent. The State’s unfunded actuarial accrued liability at the valuation date of July 1, 2009 for post-employment benefits provided through PEBB was estimated \$161.7 million. For fiscal year 2011, the ARC for post-employment benefits provided through PEBB, was \$17.4 million, plus interest on the net OPEB obligation of \$1.9 million, less the ARC adjustment of \$2.7 million. Because the State continues to fund the PEBB OPEB on a pay-as-you-go basis, the net OPEB obligation reported at the end of fiscal year 2011 in the State’s financial statements is \$55.4 million. The \$55.4 million is the sum of the prior year’s ending balance of \$47.7 million and the fiscal year 2011 annual OPEB expense of \$16.6 million, less the pay-as-you-go contribution of approximately \$8.9 million.

DEBT AUTHORITY AND BOND ISSUANCE

Administration

Oregon law authorizes the State Treasurer to coordinate the issuance of all State of Oregon bonds. The Treasurer reviews and approves the terms and conditions of bond sales and issues all bonds for State agencies. By centralizing this authority, the agencies for which bonds are issued are encouraged to plan

their offerings well in advance and to work together to obtain the most favorable market reception. In addition, the uniform approach permits greater control of the State's overall debt position, allowing the Treasurer to address the interests and concerns of the financial community and rating agencies as well as those of the State agencies.

The State Treasurer advises the Governor on the total biennial bonding level for State agency programs in the development of the Governor's recommended budget. The Legislative Assembly authorizes bonds to be issued for each agency's program in the "biennial bonding bill". The Governor's recommended budget includes requests by agencies for bonds to fund their capital project needs, as well as agencies' grant and loan programs. The Legislative Assembly reviews each program request and approves what it determines to be an appropriate level of issuance in the biennial bonding bill.

The State generally issues four types of "long-term" financing obligations: general obligation bonds, appropriation obligations, direct revenue bonds and conduit revenue bonds. The State also may issue full faith and credit short-term borrowings, known as "Tax Anticipation Notes." The Treasurer approves financing agreements, including lease purchase agreements, installment sales agreements and loan agreements to finance real or personal property and approves certificates of participation with respect to the financing agreements. The principal amount of such financing agreements is treated as bonds subject to the biennial bonding bill.

Prior to the issuance of bonds, agencies typically submit reports to the State Treasurer that project future cash flows, the agency's ability to meet future debt service, and the agency's historical performance on payments and delinquencies. Agencies must also provide cash flow projections and other requested information to the State Treasurer on a periodic basis. Agency bond programs may be audited annually with the audit results published as soon after the audit as possible.

Capital Needs and Budget Process

Oregon law requires the Governor's budget to include capital construction needs for a minimum of six years. Prior to the biennial preparation of the Governor's recommended budget, agencies submit their projected capital needs for the upcoming biennium and for the two subsequent biennia. These requests are evaluated and placed in the Governor's recommended budget under one of two categories: capital improvements (less than \$500,000) or major construction and acquisition projects (greater than \$500,000). The capital improvement projects are included in agency operating budget appropriation bills. The major construction and acquisition projects are approved by the Legislative Assembly in the biennial bonding bill.

Authorization

The Oregon Constitution generally prohibits state government from incurring any indebtedness that exceeds \$50,000. Consequently, all general obligation bonds are authorized by an amendment to the Oregon Constitution that has been approved by Oregon voters and that permits bonds to be issued as an exception to the constitutional debt limit. The State's various bond programs are summarized in the text and tables that follow. Table 24 lists the amount of debt that the Legislative Assembly has authorized for State agencies in the current biennium. Table 25 summarizes the various bond programs and provides information on constitutional and statutory debt limits and remaining authority for each active bond program.

General Obligation Bonds

The amount of general obligation bonds that may be issued is usually expressed in the Constitution as a percentage of the statewide property value. The general obligation bond programs are also subject to legislative direction. The Legislative Assembly may place limits on general obligation

bond programs that are more restrictive than those approved by the voters.

The State's general obligation debt is secured by a pledge of the full faith and credit and statutory taxing power of the State of Oregon. In addition to any revenues from the program for which the bonds are issued, general obligation bonds may be paid from any undedicated and unrestricted moneys of the State. A property tax, where authorized by the Oregon Constitution, may also be levied to pay some general obligation bonds, although the State has not levied such a tax to pay any bonds in many years.

Currently, there are 17 constitutionally authorized general obligation bond programs. Although each of these programs may draw on the State's General Fund or other taxing authority, many of the programs are fully self-supporting from program or other revenue streams. See Tables 24 and 25 for more information about applicable constitutional and statutory debt limits and remaining authority for each active general obligation bond program. See Table 26 for a summary of general obligation debt outstanding for the State. See Table 27 for the State of Oregon Aggregate General Obligation Debt Service.

The following active general obligation bond programs are primarily supported by the State's General Fund: Higher Education Facilities and Community College Bonds, Pollution Control Bonds, Alternate Energy Bonds, Oregon Opportunity Bonds, Seismic Rehabilitation Bonds for Public Education and Emergency Services Buildings, and a portion of the Pension Obligation Bonds and State Property Bonds.

The following active general obligation bond programs are either partially (as identified in Table 25) or fully self-supporting: Veterans' Welfare Bonds, Higher Education Facilities Bonds, Pollution Control Bonds, Water Resources Bonds, Elderly and Disabled Housing Bonds, Alternate Energy Bonds and a portion of the Pension Obligation Bonds and State Property Bonds.

In addition to the active general obligation bond programs described above, the Oregon Constitution authorizes the State Treasurer to pledge the full faith and credit of the State to guarantee the general obligation bonds of Oregon's common or union high school districts, education service districts or community college districts. The State guarantees outstanding school district bonds of approximately \$3.2 billion under this program and has not issued any bonds under this authorization. The Oregon Constitution also authorizes the State to incur indebtedness to provide funds to school districts to finance capital costs of the district.

Tax Anticipation Notes

ORS 293.173 authorizes a short-term, full faith and credit, borrowing program for the State through the issuance of Tax Anticipation Notes (TANs). The State may borrow and issue notes in anticipation of the collection of State taxes and revenues to be received during a biennium. The notes typically mature within 13 months. They are not considered debt within the meaning of any Constitutional prohibition because they mature and are repaid within a biennium. If the State General Fund or other available revenues are insufficient to pay the TANs, the State Treasurer may use internal borrowing to make any required payment.

Appropriation Credits

The State also issues appropriation credits that are special limited obligations of the State payable solely from funds appropriated or otherwise made available by the Legislative Assembly. The obligation of the State to provide appropriated moneys and to pay those borrowings is subject to future appropriation by the Legislative Assembly for the fiscal period in which payments are due. See Tables 24 and 25 for more information on the statutory debt limits and outstanding amount of special limited obligations of the State. The following appropriation credits are authorized under Oregon Law:

Oregon Appropriation Bonds. After an approximately \$2-billion decline in revenues during the 2001-2003 biennium, the Legislative Assembly authorized the issuance of Oregon Appropriation Bonds (Oregon Laws 2003, chapter 11) to pay for education, human services and other expenditures and to provide a beginning General Fund balance for the next biennium. The obligations are appropriation credits and payment is subject to an appropriation by the Legislative Assembly in each biennium. The State does not have current authority to issue additional Oregon Appropriation Bonds.

Certificates of Participation. Under Oregon law (ORS 283.085 to 283.092), the State is authorized to enter into financing agreements to finance real and personal property projects for State agencies using certificates of participation. Each certificate represents an interest in and right to receive a portion of loan payments made by the State to a trustee for the certificate holders. The State's obligation to make the loan payments is subject to appropriation by the Legislative Assembly of the payment amounts each biennium. In some cases, the State's repayment obligation is also secured by a pledge of certain projects financed by the certificates as collateral. Following voter approval of an amendment to the Oregon Constitution in 2010 that authorizes the State to issue general obligation bonds to finance real and personal property projects under Article XI-Q of the Oregon Constitution, the State expects to use Certificate of Participation authority on a more limited basis.

Direct Revenue Bonds

State revenue bond programs operate under statutory authority from the Legislative Assembly. Each program is fully self-supporting, and has no general obligation backing from the State. The Legislative Assembly, however, could provide a funding stream if program revenues were insufficient to support debt service payments. The Legislative Assembly normally limits revenue bonds to a specific dollar amount.

The following are active revenue bond programs authorized by the Legislative Assembly: State Highway User Tax Bonds, Lottery Revenue Bonds, Oregon Bond Bank Revenue Bonds, and Single-Family and Multifamily Revenue Bonds. See Tables 24 and 25 for more information about applicable constitutional and/or statutory debt limits and remaining authority for each active State revenue bond program.

Conduit Revenue Bonds

The State has three authorized and active conduit or "pass-through" revenue bond programs consisting of the Oregon Facilities Authority, Industrial and Economic Development Revenue Bonds, and Housing Development Revenue Bonds. The Legislative Assembly has authorized these conduit revenue bond programs, and pursuant to that authority the State is the issuer of the bonds. The bonds are repaid only from revenues generated by the projects financed or from other sources available to a borrower. The State has no financial obligation for these bonds and bondholders have no recourse against the properties, funds or assets of the State. See Tables 24 and 25 for more information about applicable statutory debt limits and remaining authority for each active State conduit revenue bond program.

TABLE 24
STATE OF OREGON
GENERAL OBLIGATION AND REVENUE BOND AND
CERTIFICATES OF PARTICIPATION
2011-13 BIENNIUM ISSUANCE LIMITS
As of March 6, 2012

State Agency or Authority	Laws	Constitutional / Statutory	Bond Limits General Obligation (\$)
Department of Veterans' Affairs	HB 5005	Article XI-A	100,000,000
Oregon University System	HB 5005/5201-A	Article XI-F(1)	166,722,070
Oregon University System	HB 5005	Article XI-G	17,608,000
Department of Community Colleges & Workforce Development	HB 5005	Article XI-G	24,500,000
Department of Environment Quality	HB 5005	Article XI-H	16,740,000
Housing and Community Services Department	HB 5005	Article XI-I(2)	50,000,000
Department of Energy	HB 5005	Article XI-J	150,000,000
Water Resources Department	HB 5005	Article XI-I(1)	15,000,000
Oregon Military Department	HB 5005	Article XI-M	7,614,000
Department of Administrative Services	HB 5005/5201-A	Article XI-Q	<u>200,645,000</u>
Total General Obligation Bonds			748,829,070
			Direct Revenue Bonds
Housing and Community Services Department	HB 5005	ORS 456.661	300,000,000
Department of Transportation			
Highway User Tax	HB 5005	ORS 367.025	663,000,000
Transportation Infrastructure Fund	HB 5005	ORS 367.030	18,360,000
Oregon Business Development Department	HB 5005	ORS 285B.473	100,000,000
Department of Administrative Services Lottery	HB 5005/5201-A	Various	233,330,000
Department of Energy	HB 5005		<u>25,000,000</u>
Total Direct Revenue Bonds			1,339,690,000
			Pass Through Revenue Bonds
Economic & Community Development Department			
Industrial Development Revenue Bonds	HB 5005	ORS 285B.344	125,000,000
Oregon Facilities Authority	HB 5005	ORS 289.200	550,000,000
Housing and Community Services Department	HB 5005	ORS 456.692	<u>125,000,000</u>
Total Pass Through Revenue Bonds			800,000,000
			Certificates of Participation and Other Financing Agreements
Department of Administrative Services	HB 5005/5201-A	ORS 283.020-092	12,500,000
Total Financing Agreements or Certificates of Participation (COPs)			12,500,000

Source: HB 5005, 76th OREGON LEGISLATIVE ASSEMBLY – 2011 Regular Session, the Oregon Constitution and Oregon Revised Statutes. HB 5201-A, 2012 Annual Session.

TABLE 25
STATE OF OREGON OUTSTANDING LONG-TERM FINANCIAL OBLIGATIONS
AND CONSTITUTIONAL AND STATUTORY PROVISIONS
As of June 30, 2012 ¹

General Obligation Bonds	Debt Limit (as % RMV)²	Constitutional Debt Limit(\$)³	Statutory Debt Limit (\$)	Amount Outstanding (\$)	Authorization Remaining (\$)⁴
General Fund Supported					
Higher Ed. Facility (XI-G) ⁵	0.7500	3,258,219,357	---	392,056,452	
Community College Bonds (XI-G)				115,090,000	2,751,072,905
Pollution Control ⁶ (42%)	0.5000	2,172,146,238	109,200,000	16,107,000	
Alternate Energy Projects ⁷ (18%)	0.5000	2,172,146,238		43,682,400	347,303,923
Oregon Opportunity Bonds ⁸	0.5000	2,172,146,238	203,175,000	138,830,000	
Seismic Rehab– Public Education Bldgs.	0.2000	868,858,495		10,815,000	858,043,495
Seismic Rehab– Emergency Serv. Bldgs.	0.2000	868,858,495		10,645,000	858,043,495
Pension Obligations ⁹ (32%)	1.0000	4,344,292,476	---	634,971,200	
General Purpose General Obligation Bonds	1.0000	4,344,292,476		<u>645,165,000</u>	3,699,127,476
Total General Fund Supported				2,007,362,052	
Self-Supporting					
Veteran’s Welfare ⁵	8.0000	34,754,339,804	---	348,590,000	34,405,749,804
Higher Ed. Building (XI-F) ⁵	0.7500	3,258,219,357	---	1,094,241,823	2,163,977,533
Pollution Control ⁶ (57%)	0.5000	2,172,146,238	260,000,000	22,243,000	2,011,346,238
Water Resources	1.5000	6,516,438,713			6,516,438,713
Elderly & Disabled Housing	0.5000	2,172,146,238	---	141,830,000	2,030,316,238
Alternate Energy Projects ⁷ (82%)	0.5000	2,172,146,238	---	198,997,600	1,582,162,315
Pension Obligations ⁹ (68%)	1.0000	4,344,292,476	---	<u>1,349,313,800</u>	
Total Self-Supporting				3,155,216,223	
Total General Obligation Bonds				<u>5,162,578,275</u>	
Appropriation Credits					
Certificates of Participation - GF ¹⁰ (85%)	---	---	---	893,039,750	
Certificates of Participation – Non-GF (15%)				157,595,250	
Oregon Appropriation Bonds	---	---	431,560,000	<u>98,095,000</u>	
Total Appropriation Credits				1,148,730,000	
Direct Revenue Bonds					
Lottery Revenue Program(s)	---	---	---	1,129,055,000	
Transportation Infrastructure Bank	---	---	200,000,000	0	200,000,000
Highway User Tax ¹¹	---	---	3,240,000,000	2,142,990,000	840,000,000
Single & Multi-Family Housing	---	---	2,500,000,000	1,235,985,000	1,264,015,000
Oregon Business Development Dept.	---	---	---	<u>116,555,000</u>	
Total Direct Revenue Bonds				4,624,585,000	
Conduit Revenue Bonds					
Industrial Development – OBDD	---	---	---	466,564,210	
Oregon Facilities Authority	---	---	---	1,636,369,753	
Multi-family Housing Programs	---	---	---	<u>190,968,871</u>	
Total Conduit Revenue Bonds				2,293,902,833	

Source: Debt Management Division, Office of the Oregon State Treasurer.

- (1) Excludes the impact, if any, of the issuance of obligations offered by this Official Statement. Does not include: Bond or Tax Anticipation Notes issued for less than 13 months, refunded and defeased bonds.
- (2) Percentages listed are of Real Market Value (RMV) of all taxable real property in the State.
- (3) Based on the January 1, 2011 Real Market Value of \$434,429,247,553. Authorizations may not include inactive programs.
- (4) For those active debt issuing programs whose remaining debt authorization is determined by current outstanding debt. The Constitutional authorization remaining is depicted in the Self-Supporting section for programs with General Fund (“GF”) and Self-Supporting bond portions. It is calculated by subtracting the sum of the GF and Self-Supporting bonds outstanding from the Constitutional debt limit.
- (5) Outstanding Department of Veterans’ Affairs and State Board of Higher Education general obligation debt reflect the proceeds amount of original issue discount and deferred interest bonds.
- (6) The amount of GF debt service support varies depending on a variety of factors such as which bonds are coming due. In this Table, Pollution Control Debt is reported at 42% GF supported and 58% self-supporting; calculated by the ratio of remaining debt service times outstanding amount.
- (7) The amount of GF support varies depending on the amortization and budgeted allocation of each bond. Alternate Energy debt is reported at 18% GF supported and 82% self-supporting; calculated by the ratio of remaining debt service times outstanding amount.
- (8) Authorized to finance capital construction at Oregon Health and Science University in an aggregate principal amount that produces net proceeds in an amount that does not exceed \$200 million.
- (9) Approved by the voters September 16, 2003. 32% is assumed to be paid from the GF, and 68% is assumed to be paid from Non-GF sources; calculated by the ratio of remaining debt service times outstanding amount.
- (10) The amount of GF support varies depending on the amortization and budgeted allocation of each obligation. COP obligations are reported at 85% GF supported and 15% self-supporting.
- (11) Authorization remaining is based on issued amount, not outstanding amount. All bonds authorized under OTIA I, II, and III have been issued. The remaining authority is for JTA.

TABLE 26
STATE OF OREGON
GENERAL OBLIGATION DEBT OUTSTANDING SUMMARY
(As of June 30, 2012)

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
Gross General Obligation Debt ¹	\$4,520,412,674	\$4,620,536,873	\$4,797,381,780	\$5,020,564,093	\$5,162,578,275
Revenue Supported GO Debt	\$3,260,150,251	\$3,229,084,387	\$3,383,126,683	\$3,316,344,503	\$3,155,216,223
Net GO Debt	\$1,260,262,423	\$1,391,452,486	\$1,414,255,097	\$1,704,219,590	\$2,007,362,052
Population ²	3,784,600	3,815,800	3,837,300	3,856,300	3,887,000
Gross Debt per Capita	\$1,194	\$1,211	\$1,250	\$1,302	\$1,328
Net Debt per Capita	\$333	\$365	\$369	\$442	\$516
Real Market Value (RMV) ³	\$501,152,650,155	\$525,356,272,908	\$498,657,322,131	\$458,518,867,537	\$434,429,247,553
Gross Debt as Percent of RMV	0.90%	0.88%	0.96%	1.09%	1.19%
Net Debt as Percent of RMV	0.25%	0.26%	0.28%	0.37%	0.46%
Total Personal Income ⁴	\$136,300,000,000	\$135,100,000,000	\$139,400,000,000	\$146,800,000,000	\$151,600,000,000
Revenue Supported GO Debt as Percent of Total Personal Income	2.39%	2.39%	2.43%	2.26%	2.08%
Net GO Debt as Percent of Total Personal Income	0.92%	1.03%	1.01%	1.16%	1.32%

Compiled by: Office of the Oregon State Treasurer, Debt Management Division.

Source: Oregon Department of Administrative Services, Office of Economic Analysis, June 2012 State Economic & Revenue Forecast, Tables A.1 Annual Forecast for Personal Income estimates & Table C.3 for Population estimates.

- (1) Excludes the impact of the issuance (if any) of the obligations offered by this Official Statement. Does not include notes issued for less than 13 months or refunded and defeased bonds.
- (2) Population figures are as of July 1 each year.
- (3) Based on true cash value of statewide property as of January 1, of the prior year.
- (4) Total personal income includes all classes of income.

TABLE 27
STATE OF OREGON
AGGREGATE GENERAL OBLIGATION DEBT SERVICE ¹
(As of June 30, 2012)

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest ²</u>	<u>Total</u>
2012-2013	\$164,492,360.25	\$271,039,045.07	\$435,531,405.32
2013-2014	184,044,060.00	263,921,483.43	447,965,543.43
2014-2015	200,146,440.30	253,714,102.04	453,860,542.34
2015-2016	212,771,434.30	245,512,573.05	458,284,007.35
2016-2017	222,385,162.15	236,798,539.16	459,183,701.31
2017-2018	233,252,239.65	223,316,704.56	456,568,944.21
2018-2019	252,888,074.25	208,059,915.31	460,947,989.56
2019-2020	314,209,965.75	194,726,404.20	508,936,369.95
2020-2021	288,023,352.10	176,851,369.36	464,874,721.46
2021-2022	288,085,186.50	160,792,415.35	448,877,601.85
2022-2023	306,120,000.00	143,672,942.15	449,792,942.15
2023-2024	314,400,000.00	126,885,313.99	441,285,313.99
2024-2025	330,665,000.00	109,344,872.47	440,009,872.47
2025-2026	357,640,000.00	90,764,932.17	448,404,932.17
2026-2027	374,430,000.00	70,666,814.72	445,096,814.72
2027-2028	109,345,000.00	49,713,726.80	159,058,726.80
2028-2029	102,915,000.00	44,469,552.80	147,384,552.80
2029-2030	100,415,000.00	39,614,909.62	140,029,909.62
2030-2031	96,315,000.00	34,986,318.63	131,301,318.63
2031-2032	96,395,000.00	30,484,092.98	126,879,092.98
2032-2033	85,855,000.00	26,269,850.01	112,124,850.01
2033-2034	89,970,000.00	22,240,317.38	112,210,317.38
2034-2035	83,445,000.00	18,243,279.43	101,688,279.43
2035-2036	83,930,000.00	14,320,089.56	98,250,089.56
2036-2037	63,370,000.00	10,543,279.28	73,913,279.28
2037-2038	60,625,000.00	7,595,785.90	68,220,785.90
2038-2039	58,605,000.00	4,782,081.75	63,387,081.75
2039-2040	38,075,000.00	2,627,090.65	40,702,090.65
2040-2041	21,110,000.00	1,440,181.75	22,550,181.75
2041-2042	17,925,000.00	646,216.25	18,571,216.25
2042-2043	2,795,000.00	243,812.50	3,038,812.50
2043-2044	2,910,000.00	163,717.50	3,073,717.50
2044-2045	2,975,000.00	102,433.75	3,077,433.75
2045-2046	1,640,000.00	40,018.75	1,680,018.75
2046-2047	200,000.00	17,100.00	217,100.00
2047-2048	210,000.00	7,481.25	217,481.25
Total	\$5,162,578,275.25	\$3,084,618,763.57	\$8,247,197,038.82

Source: Office of the State Treasurer, Debt Management Division.

- (1) Does not reflect the impact, if any, of the issuance of obligations offered by this Official Statement.
- (2) The interest calculation on variable rate obligations is determined by multiplying the most recent interest rate reset for each obligation times its outstanding principle over the life of the bonds.

APPENDIX B

**BASIC FINANCIAL STATEMENTS OF THE OREGON STATE LOTTERY
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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OREGON STATE LOTTERY

An Enterprise Fund of the State of Oregon

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2012



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Oregon State Lottery

An Enterprise Fund of the State of Oregon

Comprehensive Annual Financial Report **For the Fiscal Year Ended June 30, 2012**



It does good things™

Larry Niswender
Director

Kathy Ortega, CPA
Chief Financial Officer

Report Prepared by:

Finance and Accounting
Support Services Division, Oregon State Lottery

Jean Gabriel, CPA
Martha Wildfang

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For The Fiscal Year Ended June 30, 2012
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Introductory Section



It Does Good Things.

November 16, 2012

To the Honorable Governor John A. Kitzhaber and Citizens of the State of Oregon:

We are pleased to provide you with the Comprehensive Annual Financial Report of the Oregon State Lottery (Lottery) for fiscal year ended June 30, 2012. This report is published to meet the requirement in state law for an annual accounting of financial activities.

Lottery management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal controls established for this purpose. Because the cost of internal controls should not exceed anticipated benefits, the objective is to provide reasonable rather than absolute assurance that the financial statements are free of any material misstatements.

The Secretary of State Audits Division, the constitutional auditor of public accounts in Oregon, audited the Lottery's financial statements for the fiscal year ended June 30, 2012. The auditors used generally accepted auditing standards in conducting the engagement. Their unqualified opinion on the financial statements is the first component in the Financial Section of this report.

A narrative analysis of the Lottery's financial performance for the fiscal year can be found in the Management's Discussion and Analysis (MD&A) immediately following the independent auditor's report. This letter of transmittal complements the MD&A and should be read in conjunction with it.

Profile of Oregon State Lottery

The Oregon State Lottery was created through the initiative process in November 1984 when voters approved an amendment to the Oregon Constitution that required the establishment and operation of a State Lottery. Initially, Lottery profits were earmarked to create jobs and further economic development. In May 1995, voters approved a Constitutional amendment allowing Lottery profits to be used for the financing of public education. Similarly, voters added state parks and salmon restoration projects to the list of allowable uses of Lottery proceeds in November 1998. Oregonians have voted to use Lottery profits for things that make Oregon a great place to live.

The Lottery was established as a state agency to market and sell Lottery products to the public. Its statutory mandate requires it to operate the Lottery to produce the maximum amount of net revenues for the people of Oregon commensurate with the public good. Development of new products and game enhancements is a continual process in the effort to increase long-term revenues, while taking into consideration the potential impact of game decisions on problem gambling. The Lottery strives to promote responsible gambling by providing public information about problem gambling and the treatment available.

Through a network of 3,907 retailers, the Lottery offers players a broad mix of traditional games as well as Video LotterySM. Traditional Lottery games include: Scratch-itsSM Instant Tickets, Keno, Powerball®, MegabucksSM, RaffleSM, Win for LifeSM, Mega Millions®, Lucky LinesSM, and Pick 4SM. Video LotterySM is a product sold on stand-alone Video LotterySM terminals located in bar and tavern retail establishments. The Lottery has approximately 12,175 Video LotterySM terminals deployed throughout the state.

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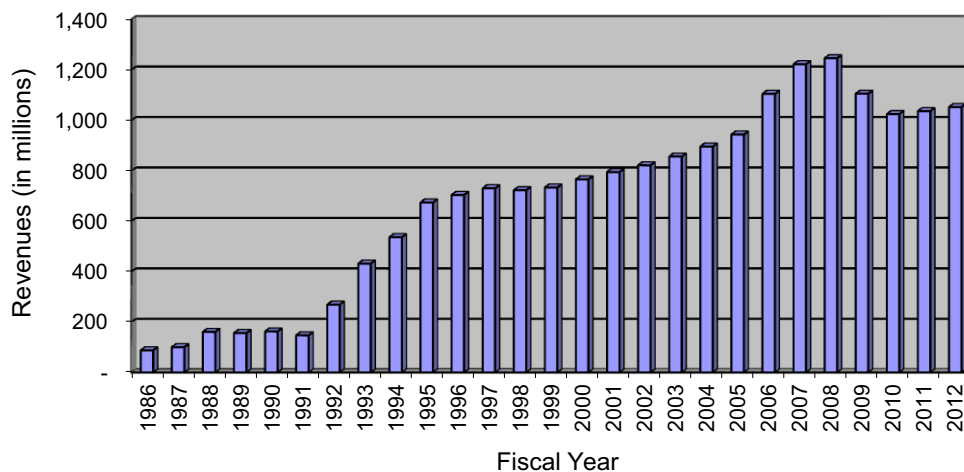
The Lottery, which is accounted for as a single enterprise fund, is entirely self-financed through its sales. Its operations are designed to fulfill its duty to develop, produce, and market Lottery games; pay winners and operating expenses; and remit the remaining net profits to the State. These net profits are transferred to the Oregon Economic Development Fund and are then distributed by the State to finance the various uses allowed by law. Through its business units, the Lottery provides services that are necessary to operate successfully including security, marketing, retailer support, finance, management and information services. Additional information about the Lottery is available on its web site at: <http://www.oregonlottery.org>.

The Lottery is operated under the direction of a five-member commission, with the commissioners appointed by the Governor and confirmed by the Senate. The Commission directs the activities of the Lottery, including the adoption of rules for the security and integrity of operations. The Governor also appoints a Director, who serves as the chief administrator of the Lottery. The Director is responsible for operating the Lottery in accordance with state law and administrative rules and under the guidance of the Commission.

For budgeting purposes, the Commission adopts an annual Financial Plan based on activities identified in Lottery's annual Business Plan. The Financial Plan uses revenue forecasts prepared by the Oregon Department of Administrative Services, Office of Economic Analysis. Budgeted revenues and direct expenses (prizes, commissions, game vendor charges, and tickets) are revised quarterly for changes in revenue forecasts. Revisions to other expense items in the adopted budget must be approved by the Commission. The budget is prepared on the accrual basis of accounting. Actual expenses are monitored throughout the year for compliance with the approved budget and appropriate adjustments are approved if necessary. By law, expenses to operate the Lottery are limited to no more than 16 percent of total annual revenues.

Since the Lottery's first full year of operation in 1986 through fiscal year 2008, Lottery revenues demonstrated strong and consistent growth. Lottery revenues declined in fiscal year 2009 and 2010 due to the impacts of Oregon's economic recession and the implementation of a statewide smoking ban in bars and taverns where Lottery products are sold. Revenues stabilized in 2011 with a slight improvement and further improved in 2012.

Total Oregon Lottery Revenues¹ by Fiscal Year (1986 - 2012)



¹Revenues based on gross receipts for traditional games and net receipts (after prizes) for video games.

Economic Condition and Outlook

According to the Oregon Office of Economic Analysis (OEA), Oregon's job growth outpaced the national average during calendar years 2006 and 2007. During 2008, employment declined in Oregon by 0.7 percent, slightly more than the national decline of 0.6 percent. As the economic recession deepened, further job losses resulted in declines in 2009 and 2010 of 6.2 and 0.7 percent respectively. Job growth in 2011 for Oregon and the nation was 1.2 percent. For 2012, Oregon's employment growth is expected to continue to be slow, at 1.2 percent, with job gains coming from hiring in the private sector.

Oregon's personal income is projected to increase from calendar year 2011 to 2012 by 2.9 percent. For 2013, OEA estimates that personal income will increase by 3.7 percent while wage and salary income will increase by 4.1 percent. Personal income is projected to increase by 4.9 percent in 2014, which is higher than the projected 4.6 percent increase for the nation. Wage and salary income in Oregon is expected to grow at a faster rate than the nation in 2014, with a projected increase of 4.6 percent as compared to 4.0 percent. Several factors currently facing the Oregon economy are prolonged housing market instability, European debt concerns and financial market instability, commodity price inflation, and the effects of various global economic issues.

Long-term Financial Planning

On a quarterly basis, the Office of Economic Analysis (OEA) forecasts Lottery earnings and distributions. In the September 2012 Economic and Revenue Forecast, the OEA projected a decrease in Lottery earnings for the 2011-2013 biennium from the prior forecast in June of 2012. The \$17.0 million decrease to the forecast is as a result of slightly weaker expectations for consumer spending on Lottery products.

The Lottery uses a five-year Strategic Plan in conjunction with an annual Business Plan and annual budget to plan and manage its operations. Lottery's main strategic objective is to generate optimal revenue for public use by offering a wide variety of market-responsive games that will appeal to diverse consumer markets and successfully manage a broad distribution network. Among other efforts in support of this objective, the Lottery is planning for the implementation of a new Video LotterySM central gaming system. This system is expected to provide new game content and functionality that will increase operational efficiency. The system will also lay a foundation for the long-term goal to upgrade or replace aging terminals with terminals that are designed on the open standards G2S protocol. The implementation efforts are expected to occur over the next two fiscal years.

Relevant Financial Policies

In order to provide resources for current operations and future investment, the Lottery Commission established a contingency reserve fund. As authorized by the Commission, the available cash portion of this reserve fund was increased from \$55.0 million to \$85.0 million during the year in an effort to provide resources for the planned replacement of Video LotterySM terminals. At fiscal year end, the balance of \$84.4 million of this contingency reserve was uncommitted.

The Lottery's fiscal year 2013 budget is based on the June 2012 Economic and Revenue Forecast. In light of economic conditions, the budget was developed by balancing the need to responsibly manage expenses while taking proactive steps to maximize revenues for the State. The 2013 budget is conservative, but does make investments in new Video LotterySM games to keep players interested and help reduce the impact of the weak economic recovery on Lottery revenues.

Major Initiatives

The Lottery plans to update its game offerings on the IGT TrimLine, Spielo prodiGiVuTM, and Bally CineVisionTM Video LotterySM terminals during fiscal year 2013. Some of these new games will continue to offer players the potential to win prizes up to \$10,000. This combination of refreshed games and games with higher prizes will help to maintain the vitality and continued success of Lottery products.

Lottery is planning several initiatives to reach out to existing and new players. It will conduct a variety of promotional activities such as on-premise and event-based promotions to create awareness, interest, and trial of Video LotterySM line games. The Lottery will focus marketing efforts on Powerball® and Mega Millions® games to increase jackpot visibility and expand playership. Two RaffleSM games will be offered in fiscal year 2013. In addition, the Lottery will continue to work in collaboration with the Oregon Council on Problem Gambling and the Oregon Health Authority on problem gambling outreach.

Another initiative is a multi-phase project involving the planning, implementation, and deployment of a new gaming network. As part of this project, the supporting network transport technology will be upgraded from frame relay to newer ethernet technology. These infrastructure enhancements will work in conjunction with implementation of the new Video LotterySM central gaming system to enable the Lottery to meet its strategic business needs into the future. During fiscal year 2013, the Lottery will also implement an outsourced payroll and human resource information management system. The new system will include a web-based time entry solution along with many self service functions.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Oregon State Lottery for its comprehensive annual financial report for the fiscal year ended June 30, 2011. This was the fourth consecutive year that the Lottery has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report reflects the combined efforts of the Lottery's Finance and Accounting staff. We would like to express our gratitude to all Lottery staff for working cooperatively to ensure the integrity of Lottery's financial reporting. In addition, we appreciate the direction and support provided by the Lottery Commission.

Respectfully submitted,

A handwritten signature in black ink that reads "Kathy Ortega". The signature is written in a cursive style with a large, stylized initial "K".

Kathy Ortega, Chief Financial Officer
Oregon State Lottery

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Oregon State Lottery

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Davison

President

Jeffrey R. Emery

Executive Director

Principal Officials of Oregon State Lottery

Elisa Dozono
Commission Chair

Bill Ihle
Commission Vice Chair

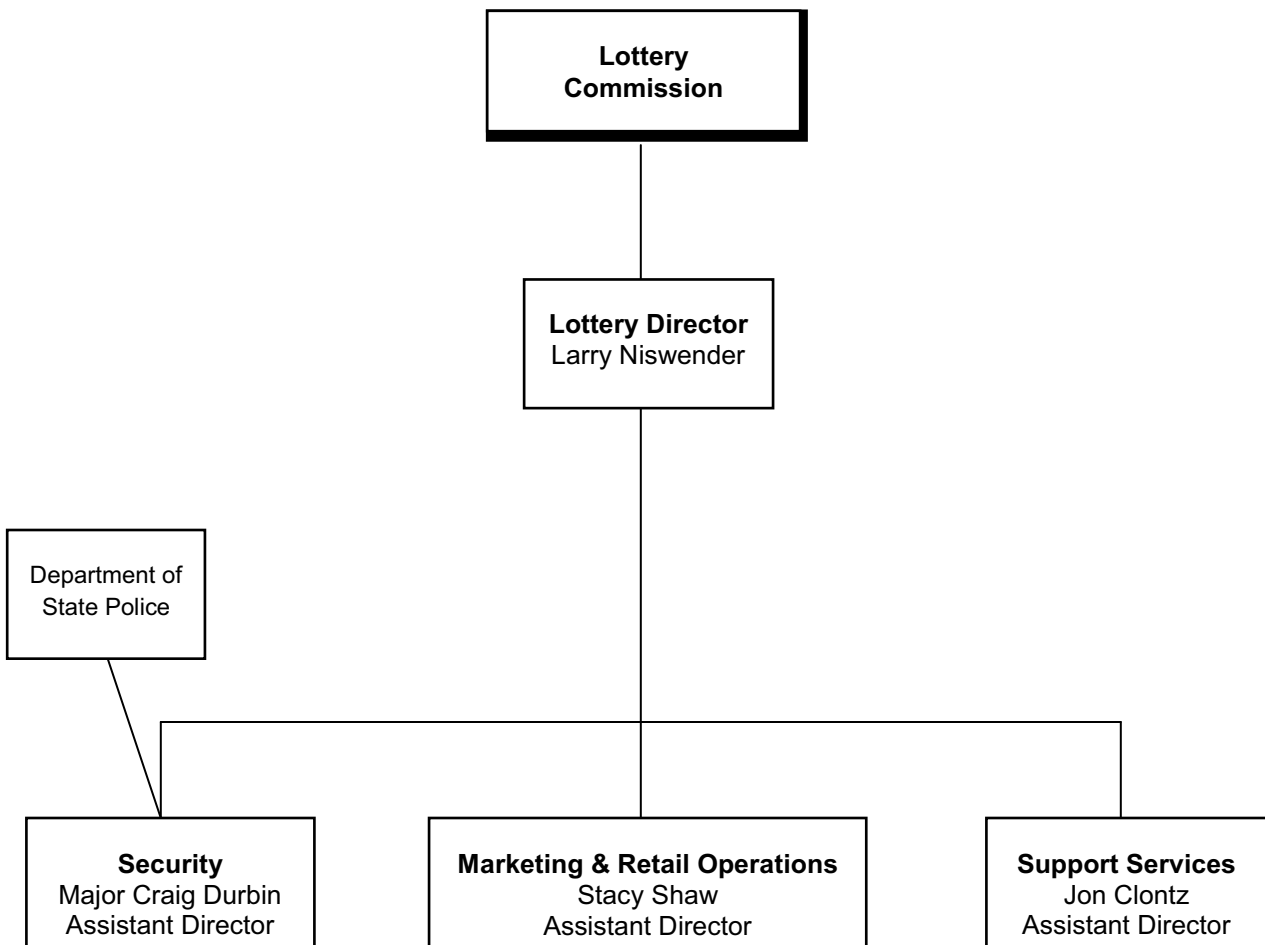
Raul Valdivia
Commissioner

Mary Wheat
Commissioner

Amy Lowery
Commissioner

Larry Niswender
Director

Organization Chart



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Financial Section

Office of the Secretary of State

Kate Brown
Secretary of State

Barry Pack
Deputy Secretary of State



Audits Division

Gary Blackmer
Director

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Salem, OR 97310

(503) 986-2255
fax (503) 378-6767

The Honorable John Kitzhaber
Governor of Oregon

Elisa Dozono, Chair
Oregon State Lottery Commission

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Oregon State Lottery, as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Oregon State Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Oregon State Lottery's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Oregon State Lottery are intended to present the financial position, and the changes in financial position and cash flows that are attributable to the transactions of the Oregon State Lottery. They do not purport to, and do not, present fairly the financial position of the State of Oregon as of June 30, 2012, the changes in its financial position or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Oregon State Lottery as of June 30, 2012, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2012, on our consideration of the Oregon State Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations,

contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. That report is presented separately in the Other Reports section as listed in the table of contents.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the schedules of funding progress as listed on the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Oregon State Lottery's financial statements. The budgetary comparison schedule, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule is fairly stated in all material respects in relation to the financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Oregon State Lottery's basic financial statements. The introductory and statistical sections as listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

OREGON AUDITS DIVISION



Kate Brown
Secretary of State
November 16, 2012

Oregon State Lottery

Management's Discussion and Analysis

This section of the Oregon State Lottery's (Lottery) Comprehensive Annual Financial Report presents our discussion and analysis of the Lottery's financial performance for the fiscal year ended June 30, 2012. This analysis is to be considered in conjunction with information in the transmittal letter of this report.

Financial Highlights

- Sales of all Lottery products were \$1.1 billion, an increase of 1.2 percent from fiscal year 2011.
- Video LotterySM revenue increased by \$6.6 million from the prior fiscal year, and revenue from traditional games increased by \$5.7 million.
- Net assets (equity) increased by \$3.0 million as a result of fiscal year operations.
- The Lottery transferred \$523.7 million to Oregon's Economic Development Fund, which is \$23.3 million less than the prior year.

Overview of the Financial Statements

In addition to this discussion and analysis, the Financial Section of this annual report contains the basic financial statements, which include the fund financial statements and notes to the financial statements; required supplementary information; and an optional budgetary comparison schedule, which is presented as other supplementary information.

The basic financial statements offer short-term and long-term financial information about the Oregon State Lottery, which is structured as a single enterprise fund. The required supplementary information contains a Schedule of Funding Progress and accompanying notes for two other postemployment benefit (OPEB) plans in which the Lottery participates: the Public Employees Benefit Board OPEB Plan and the Retiree Health Insurance Premium Account OPEB Plan. The budgetary comparison schedule presents budgeted and actual revenues and expenses for the fiscal year. In addition, a Statistical Section containing information regarding financial trends and revenue capacity as well as demographic, economic, and operating information is presented following the budgetary comparison schedule.

The Balance Sheet provides information about the nature and amounts of investments in resources (assets) and obligations (liabilities) at the end of the fiscal year, with the difference between assets and liabilities reported as net assets (equity).

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Fund Net Assets. This statement measures the results of the Lottery's operations over the past year.

The primary purpose of the Statement of Cash Flows is to provide information about the Lottery's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities.

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Thus, expenses are recorded when liabilities are incurred and revenues are recognized when earned, not when received.

Analysis of Financial Position and Operations

Total assets at June 30, 2012 were \$540.6 million, a decrease of \$13.5 million from the prior year. The change in assets consists primarily of a decrease in securities lending cash collateral, a decrease in net capital assets, and an increase in investments. Securities lending activity fluctuates based on the extent this activity is used by the Office of the State Treasurer for cash management purposes. The effect of accumulated depreciation during the year contributed to the net decrease in capital assets. An increase in the fair value of investments contributed to a larger balance of investments reported at year end.

Total liabilities decreased by \$16.5 million from the prior year. A decrease of \$13.7 million in obligations under securities lending and a decrease of \$19.5 million in the amount due to the Economic Development Fund (EDF) contributed to the net change. The amount owed to the EDF at year end represents the fourth quarter earnings not yet transferred plus administrative savings. The amount due to the EDF at the end of fiscal year 2012 was lower than the prior year as a result of several factors. There were no administrative savings accrued for transfer for the fourth quarter of 2012 because the Lottery increased the contingency reserve limit. Revenues from traditional products were slightly lower in the fourth quarter than the prior year and prizes for traditional products were higher than the fourth quarter of the prior year. This reduced the amount of earnings not yet transferred at year end. These decreases in total liabilities were offset primarily by an increase in prize liability. In June 2012, a Win For LifeSM prize of \$7.1 million was claimed but not yet paid as of June 30, which contributed to the increase from the prior year.

Lottery's net assets for the current and prior fiscal year are summarized in Table 1 below:

Table 1: Oregon State Lottery's Net Assets			
	2012	2011	Change
Current assets	\$ 377,528,565	\$ 385,764,314	\$ (8,235,749)
Capital assets	43,161,242	62,805,601	(19,644,359)
Other noncurrent assets	119,864,999	105,525,111	14,339,888
Total assets	<u>540,554,806</u>	<u>554,095,026</u>	<u>(13,540,220)</u>
Current liabilities	274,365,810	313,474,875	(39,109,065)
Noncurrent liabilities	126,594,466	104,021,855	22,572,611
Total liabilities	<u>400,960,276</u>	<u>417,496,730</u>	<u>(16,536,454)</u>
Net assets:			
Invested in capital assets, net	43,161,242	62,805,601	(19,644,359)
Unrestricted	96,433,288	73,792,695	22,640,593
Total net assets	<u>\$ 139,594,530</u>	<u>\$ 136,598,296</u>	<u>\$ 2,996,234</u>

A portion of the Lottery's net assets (30.9 percent) reflects its investment in capital assets, primarily Video LotterySM gaming terminals and ticket vending machines. The Lottery has no outstanding debt associated with its capital assets.

Of the \$96.4 million in unrestricted net assets at year end, \$5.3 million was committed for the deployment of new Video LotterySM games into the market. An additional \$933,925 was committed for the purchase of other capital assets that will be used to support operations.

Table 2 below presents a summary of changes in net assets for the current and prior fiscal year:

Table 2: Oregon State Lottery's Changes in Net Assets			
Operating revenues:	2012	2011	Change
Video Lottery SM game sales, net	\$ 727,124,878	\$ 720,510,190	\$ 6,614,688
Scratch-its SM instant ticket sales	117,521,750	115,895,266	1,626,484
Keno sales	93,456,813	93,270,757	186,056
Powerball [®] sales	38,777,424	33,491,623	5,285,801
Megabucks SM sales	37,539,720	40,780,752	(3,241,032)
All other game sales	35,865,121	34,014,231	1,850,890
Provision for bad debts	(71,327)	(128,164)	56,837
Other income	209,110	1,142,214	(933,104)
Total operating revenues	1,050,423,489	1,038,976,869	11,446,620
Operating expenses:			
Prizes	238,278,854	208,672,809	29,606,045
Retailer commissions	201,626,030	200,510,286	1,115,744
Salaries and wages	36,317,480	35,512,068	805,412
Depreciation and amortization	26,794,091	29,773,197	(2,979,106)
Services and supplies	10,159,107	10,644,690	(485,583)
Game vendor charges	8,620,924	8,552,689	68,235
Advertising and market research	6,444,771	8,446,004	(2,001,233)
Public information	3,882,869	4,420,673	(537,804)
Tickets	4,640,444	4,230,790	409,654
Game equipment parts and maintenance	1,925,220	2,115,134	(189,914)
Sales support	1,113,400	1,234,314	(120,914)
Total operating expenses	539,803,190	514,112,654	25,690,536
Nonoperating revenues (expenses):			
Interest and investment income	17,744,105	3,587,450	14,156,655
Insurance recoveries	30,676	65,081	(34,405)
Gain (loss) on disposition of assets	(147,802)	(2,919,876)	2,772,074
Investment expenses - securities lending	(138,855)	(237,391)	98,536
Total nonoperating revenues (expenses)	17,488,124	495,264	16,992,860
Income before transfers	528,108,423	525,359,479	2,748,944
Transfers to the economic development fund	(523,652,688)	(546,996,892)	23,344,204
Transfers to the general obligation bond fund	(1,459,501)	(1,444,213)	(15,288)
Change in net assets	2,996,234	(23,081,626)	26,077,860
Net assets - beginning	136,598,296	159,679,922	(23,081,626)
Net assets - ending	\$ 139,594,530	\$ 136,598,296	\$ 2,996,234

The Lottery's net assets increased by \$3.0 million as a result of fiscal year operations. Overall, net product sales were \$12.4 million, or 1.2 percent, higher than the prior year. This is primarily attributable to an increase of \$6.6 million in Video LotterySM revenue. During the year, new game sets were deployed on select Video LotterySM terminals to offer a wide variety of game choices that appeal to a diverse audience. Although economic conditions continued to impact consumer spending on entertainment such as Lottery games, this is the second consecutive year of slight gains in Video LotterySM revenue.

Sales for traditional games were up slightly (1.8 percent) from the prior year. The highest growth was \$5.3 million in Powerball[®] sales, which were impacted by a large jackpot during the year. In addition, changes were made to the Powerball[®] game to increase the price to \$2, offer higher starting jackpot amounts, and offer more favorable game odds. Revenue from Mega Millions[®] was \$4.8 million higher than the prior year as a result of a world record jackpot of \$656.0 million during the year. This contributed to an increase in all other game sales, which was offset by decreases in other games such as Win For LifeSM and RaffleSM.

Retailer commissions were 0.6 percent higher than the prior year generally as a result of increased sales. Commission rates paid by retailers vary based on the games offered (traditional or video) and the retailers' sales volume. Traditional prize expenses were \$29.6 million higher than the prior year due to a combination of two main factors. The increase in fair value of investments being held to fund prizes with long-term payments was greater than the prior year, which resulted in an increase in prize expenses. In addition, a significant Win For LifeSM jackpot prize was won, resulting in a higher prize expense for that game this year. Since revenues for Video LotterySM are reported net of prizes awarded, the prize expenses in Table 2 include only traditional game prizes.

Depreciation expense was \$3.0 million lower than last year mainly due to the business decision during the fiscal year to change the estimated useful life of Video LotterySM terminals from five to seven years. In an effort to delay outlays needed for replacement, the terminals are generally expected to be in service longer.

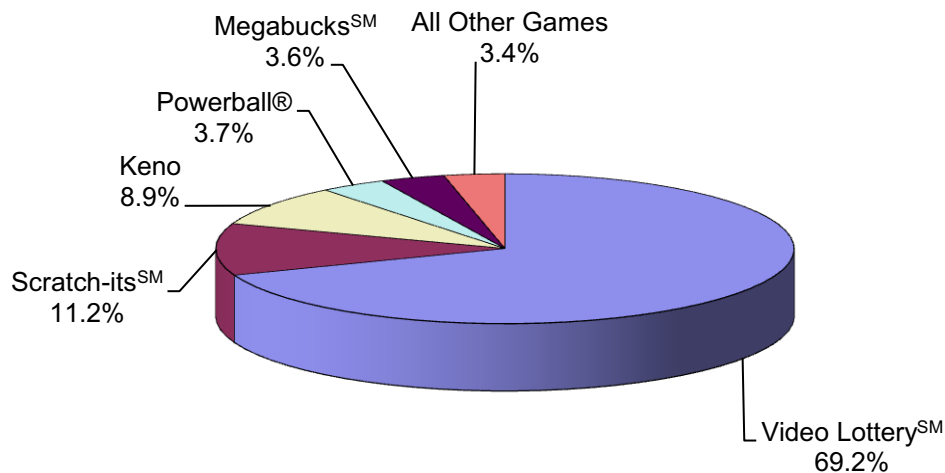
Advertising and market research expenses were \$2.0 million less than last year as a result of decisions made to reduce administrative expenses in the current economic conditions. Interest and investment income increased by \$14.2 million as a result of an increase in the market value of investments.

The increase in overall net sales and responsible management of administrative expenses enabled the Lottery to transfer \$523.7 million to Oregon's Economic Development Fund. The amount transferred was \$23.3 million less than the prior year because the Lottery is retaining working capital for future upgrade and replacement of Video LotterySM terminals.

Sales Revenue

Figure 1 below shows the major sources and percentages of sales revenue for fiscal year 2012:

Figure 1: Sales Revenue by Product



Video LotterySM remains the largest source of revenue and represents 69.2 percent of total sales revenue. In fiscal year 2012, the Lottery completed the deployment of new games on select Video LotterySM terminals, including games that offer prizes up to \$10,000. While Video LotterySM remains an excellent source of continuing revenue for the State, the Lottery actively seeks to promote responsible gambling behavior.

Sales of Scratch-itsSM were the second largest source of revenue (11.2 percent) during fiscal year 2012. One of Lottery's marketing campaigns promoted the Holiday Sweater Scratch-itSM ticket, which contributed to successful holiday ticket sales. In addition, the Lottery continued to introduce a variety of new scratch ticket games at various price points in an effort to maximize revenues for the State. Keno represented 8.9 percent of total sales revenue for the fiscal year.

Capital Assets

The Lottery's investment in capital assets for the current and prior fiscal year is shown in Table 3 below. The majority of capital assets used in operations are equipment such as Video LotterySM gaming terminals and ticket vending machines.

Table 3: Oregon State Lottery's Capital Assets, Net of Depreciation

	2012	2011	Change
Equipment	\$ 24,801,137	\$ 45,214,095	\$ (20,412,958)
Computer software	9,727,885	8,450,878	1,277,007
Buildings and improvements	6,742,981	7,152,863	(409,882)
Vehicles	1,870,967	1,925,156	(54,189)
Leasehold improvements	18,272	62,609	(44,337)
Total	\$ 43,161,242	\$ 62,805,601	\$ (19,644,359)

During fiscal year 2012, net capital assets decreased by \$19.6 million, a 31.3 percent decline. The net change is primarily attributed to depreciation expense for the year. The overall reduction was offset by an increase in computer software, as new Video LotterySM game sets were deployed to replace outdated games. As previously mentioned, the Lottery had committed \$6.2 million for capital expenses at June 30, 2012. Additional information on Lottery's capital assets can be found in Note 6 of this report.

Factors Relevant to Future Operations

The slow economic recovery underway in Oregon is expected to continue having an impact on sales of Lottery products. Oregon's unemployment rate for August 2012 was 8.9 percent, slightly higher than the past seven months. Job growth for the second quarter of 2012 was 0.6 percent, which was slightly lower than the first quarter. To the extent that future economic conditions continue to impact discretionary consumer spending, net revenues generated through Lottery sales will likely be affected.



Basic Financial Statements

OREGON STATE LOTTERY
Balance Sheet
June 30, 2012

Assets

Current Assets:

Cash and Cash Equivalents	\$ 233,604,600
Securities Lending Cash Collateral	107,814,899
Investments for Prize Payments	12,698,314
Accounts Receivable - Net of Allowance for Doubtful Accounts of \$263,630	20,668,537
Ticket Inventory	2,265,870
Prepaid Expenses	476,345

Total Current Assets	<u>377,528,565</u>
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Noncurrent Assets:

Investments for Prize Payments	116,767,905
Prize Reserves with Multi-State Lottery (MUSL)	3,097,094

Capital Assets:

Equipment	146,385,631
Computer Software	21,447,439
Building and Improvements	11,958,350
Vehicles	4,036,979
Leasehold Improvements	157,233

Less Accumulated Depreciation and Amortization	<u>(140,824,390)</u>
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Total Noncurrent Assets	<u>163,026,241</u>
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Total Assets	<u>\$ 540,554,806</u>
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Liabilities and Net Assets

Current Liabilities:

Due to Economic Development Fund	\$ 126,123,153
Obligations Under Securities Lending	107,814,899
Prize Liability	29,320,053
Accounts Payable	8,846,726
Compensated Absences	1,843,837
Unearned Revenue	318,172
Deposit Liability	87,063
Contracts Payable	11,907

Total Current Liabilities	<u>274,365,810</u>
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Noncurrent Liabilities:

Deferred Prize Liability	125,040,986
Compensated Absences	949,855
Net Other Postemployment Benefits (OPEB) Obligation	603,625

Total Noncurrent Liabilities	<u>126,594,466</u>
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Total Liabilities	<u>400,960,276</u>
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Net Assets:

Invested in Capital Assets	43,161,242
Unrestricted Net Assets	96,433,288

Total Net Assets	<u>139,594,530</u>
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Total Liabilities and Net Assets	<u>\$ 540,554,806</u>
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The accompanying notes are an integral part of the financial statements.

OREGON STATE LOTTERY
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Ended June 30, 2012

Operating Revenues

Sales:

Video Lottery SM (Net Receipts)	\$ 727,124,878
Scratch-its SM Instant Tickets (Net of Returns)	117,521,750
Keno	93,456,813
Powerball [®]	38,777,424
Megabucks SM	37,539,720
Mega Millions [®]	22,208,222
Win For Life SM	5,545,700
Raffle SM	4,999,650
Lucky Lines SM	1,758,800
Pick 4 SM	1,352,749
Provision for Bad Debts	(71,327)

Other Income	209,110
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Total Operating Revenues	<u>1,050,423,489</u>
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Operating Expenses

Prizes	238,278,854
Retailer Commissions	201,626,030
Salaries and Wages	36,317,480
Depreciation and Amortization	26,794,091
Services and Supplies	10,159,107
Game Vendor Charges	8,620,924
Advertising and Market Research	6,444,771
Public Information	3,882,869
Tickets	4,640,444
Game Equipment Parts and Maintenance	1,925,220
Sales Support	1,113,400

Total Operating Expenses	<u>539,803,190</u>
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Operating Income	<u>510,620,299</u>
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Nonoperating Revenues (Expenses)

Interest and Investment Income	17,744,105
Insurance Recoveries	30,676
Gain (Loss) on Disposition of Assets	(147,802)
Investment Expenses - Securities Lending	(138,855)

Total Nonoperating Revenues (Expenses)	<u>17,488,124</u>
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Income Before Transfers	528,108,423
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Transfers to the Economic Development Fund	(523,652,688)
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Transfers to the General Obligation Bond Fund	<u>(1,459,501)</u>
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Change in Net Assets	2,996,234
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Net Assets - Beginning	<u>136,598,296</u>
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Net Assets - Ending	<u><u>\$ 139,594,530</u></u>
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The accompanying notes are an integral part of the financial statements.

OREGON STATE LOTTERY
Statement of Cash Flows
For the Year Ended June 30, 2012

Cash Flows from Operating Activities:	
Receipts from Customers	\$ 1,044,347,963
Payments to Employees for Services	(33,216,484)
Payments to Suppliers	(237,815,535)
Payments to Prize Winners	(219,269,125)
Other Income	909,807
Net Cash Provided (Used) by Operating Activities	<u>554,956,626</u>
Cash Flows from Noncapital Financing Activities:	
Transfers to the Economic Development Fund	(549,050,660)
Transfers to the General Obligation Bond Fund	(1,338,108)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(550,388,768)</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition of Capital Assets	(7,837,195)
Proceeds from Disposition of Capital Assets	563,476
Payments on Contract	(26,502)
Insurance Recoveries for Capital Assets	30,676
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(7,269,545)</u>
Cash Flows from Investing Activities:	
Purchases of Investments	(10,507,862)
Proceeds from Sales and Maturities of Investments	14,056,000
Interest on Investments and Cash Balances	1,353,079
Securities Lending Expenses	(138,855)
Net Cash Provided (Used) by Investing Activities	<u>4,762,362</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,060,675
Cash and Cash Equivalents - Beginning	231,543,925
Cash and Cash Equivalents - Ending	<u><u>\$ 233,604,600</u></u>

Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:

Operating Income	\$ 510,620,299
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation and Amortization	26,794,091
Net Changes in Assets and Liabilities:	
(Increase) / Decrease in Accounts Receivable	(4,878,528)
(Increase) / Decrease in Ticket Inventory	79,231
(Increase) / Decrease in Prepaid Expenses	80,188
(Increase) / Decrease in Prize Reserves with MUSL	(151,283)
Increase / (Decrease) in Accounts Payable	3,403,342
Increase / (Decrease) in Compensated Absences Liability	80,152
Increase / (Decrease) in Other Postemployment Benefits Obligation	83,673
Increase / (Decrease) in Deposit Liability	(48,360)
Increase / (Decrease) in Unearned Revenue	(267,191)
Increase / (Decrease) in Prize Liability	19,161,012
Total Adjustments	<u>44,336,327</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 554,956,626</u></u>
Noncash Investing, Capital, and Related Financing Activities:	
Net Change in Fair Value of Investments	\$ 16,391,027
Intangible Assets Acquired Through Contract	23,814
Total Noncash Investing, Capital, and Related Financing Activities	<u><u>\$ 16,414,841</u></u>

The accompanying notes are an integral part of the financial statements.

OREGON STATE LOTTERY
Notes to the Financial Statements
June 30, 2012

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Oregon State Lottery Commission (Commission) was created as an agency of the State of Oregon by enactment of Article XV, Section 4 (3), of the Oregon Constitution, an initiative measure approved by Oregon voters at the November 1984 general election. The Commission established the Oregon State Lottery (Lottery), which is an enterprise fund of the State of Oregon. The Lottery commenced operations to market and sell Lottery products to the public in January 1985. The net profits of the Lottery are transferred to the Oregon Economic Development Fund and are then distributed by the State of Oregon to finance the various public purposes allowed by law.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accompanying financial statements of the Lottery have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB). FASB standards of accounting and financial reporting issued prior to December 1, 1989 are followed for the Lottery's financial statements to the extent that those standards do not conflict with or contradict GASB pronouncements. As allowed by GASB standards, the Lottery has elected not to follow subsequent FASB guidance.

The Lottery uses an enterprise fund, the Oregon State Lottery Fund, with a self-balancing set of accounts to record its assets, liabilities, net assets, revenues, and expenses. Enterprise funds account for activities that are financed and operated in a manner similar to private business enterprises.

Lottery financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Revenues and expenses are categorized as operating or nonoperating in the Statement of Revenues, Expenses and Changes in Fund Net Assets. Operating revenues and expenses are those that result from selling Lottery games to the public. Operating revenues include the sale of Lottery products and incidental revenues associated with operating the Lottery. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. Revenues and expenses that do not result from selling Lottery games, such as investment income and investment expenses, are reported as nonoperating revenues and expenses.

Assets and liabilities are classified on the Balance Sheet as current and noncurrent. Current assets are available, or will become available, within the next fiscal year to pay operating expenses and liabilities of the Lottery. Current liabilities are due in the next fiscal year. Noncurrent assets are not easily liquidated or are restricted for purposes other than payment of normal operations and liabilities. Noncurrent liability amounts are due in periods following the upcoming fiscal year.

Total net assets are segregated into two categories: invested in capital assets and unrestricted net assets. The Lottery has no outstanding debt associated with its capital assets. Article XV of the Oregon Constitution restricts the use of Lottery revenues for payment of prizes and administrative expenses, and remaining revenues are to be used for public purposes allowed in Article XV. Net proceeds not yet transferred are reflected in liabilities as the amount due to the Economic Development Fund. Net assets reported at year end will be used for Lottery operations.

C. Sales Revenue

Revenues for MegabucksSM, Powerball[®], Mega Millions[®], Keno, Win for LifeSM, RaffleSM, Pick 4SM, and Lucky LinesSM (draw games) are recognized when the draws occur. Revenues for instant scratch ticket games are recognized when retailers activate ticket packs for sale to the public. Revenues for Video LotterySM games are recognized when sales to the public occur and are reported net of prizes awarded (refer to Note 8 for more information on Video LotterySM revenue and prize expense). All revenues are reported net of free plays, discounts, and allowances.

D. Unearned Revenue

All draw games can be purchased in advance of the drawings. When shares are sold in advance of the draw date, sales revenue is not yet earned. Unearned revenue includes revenue associated with shares that have been sold for draw dates after the June 30 fiscal year end.

E. Prize Expense

Instant ticket prize expense is estimated and recognized when ticket packs are activated and is based on the design of the game. Game designs include certain guaranteed prizes in each pack of tickets and prizes placed randomly by the gaming vendor. When validations for the game have ended, differences between estimated and actual prizes awarded for the randomly placed tickets are adjusted to prize expense and prize liability. Guaranteed prizes not claimed by winners are transferred to the Economic Development Fund.

Prize expense for draw games is recognized as drawings are held, based on the shares sold and the estimated or known cost of the prize payments. Prize expense is adjusted as prizes are claimed and the actual cost of the prize is known. Expense for prizes with long-term payments is recognized when the prize liability is recorded at the discounted present value of estimated future cash payments. Video LotterySM prize expense is recognized as game play completes and prizes are known. More detailed information for Video LotterySM is in Note 8.

The cost of Lottery products distributed through various promotional activities is included in ticket expense and any prizes (actual or estimated) are recorded in prize expense. The sales value of these products for the fiscal year ended June 30, 2012 was \$89,158.

F. Prize Liability

Prize liability is recorded when the prize expense is recognized (see Note 1.E.) and is reported at the discounted present value of estimated future cash payments. Estimated and known prize payments due within one year of the financial statement date are recorded as a current liability and payments due later than the upcoming year are classified as a noncurrent liability. Unclaimed prizes (winning shares known to be sold and not presented for payment within one year from the draw date or official end of a game) are reclassified from Prize Liability to Due to Economic Development Fund.

G. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, test cash held by employees, and cash and investments held in the Oregon Short-Term Fund (OSTF). For purposes of the Statement of Cash Flows, all Lottery moneys held by the Office of the State Treasurer in the OSTF are considered to be cash equivalents. The OSTF is an investment pool that functions as a demand deposit account.

H. Investments

Investments are reported at fair value. The fair value of investments is determined using quoted market prices. Changes in the fair value of investments are recognized as investment income (loss) in the current year.

I. Securities Lending

Securities lending amounts are reported at the value of the cash collateral received. The security lending liability is reported at the cash amount received as collateral.

J. Accounts Receivable

Accounts receivable is reported net of an allowance for uncollectible accounts. Receivables primarily consist of proceeds due from Lottery retailers. Most retailers selling Lottery products are required to remit weekly proceeds (Sunday through Saturday), less commissions, on the following Wednesday. Corporate accounts with multiple establishments may remit proceeds on the second Wednesday following the end of the business week.

K. Inventories

Inventories are valued at cost using the specific identification method. Ticket inventory consists of Scratch-itsSM instant tickets primarily stored in the Lottery warehouse. A small amount of inventory is stored at retail establishments. Ticket inventory held in the warehouse is destroyed and recorded as an expense when distributions to retailers are no longer allowed. Tickets not sold at retail establishments are recorded as an expense when activations are no longer allowed.

L. Prize Reserves

Prize reserves held by the Multi-State Lottery (MUSL) are amounts held to indemnify participating lotteries for prizes that may be won. Should the Lottery decide against participation in MUSL, these amounts would be returned.

M. Capital Assets

Capital assets, which mainly include gaming equipment and related software, are reported at historical cost. Physical and intangible assets with a cost of \$5,000 or more and a useful life of more than one year are capitalized. Beginning July 1, 2009, the Lottery elected to retroactively report internally generated intangible assets. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	10 to 40
Video lottery terminals	7
Instant ticket vending machines	5
Other machinery and equipment	3 to 8
Leasehold improvements	5
Vehicles	5
Computer hardware and software	3
Licensing agreements	Term of contract

During the fiscal year, the estimated useful life of video lottery terminals was changed from five to seven years. This change in estimate increased the change in net assets for the fiscal year by approximately \$2,164,000.

N. Compensated Absences

Employees earn annual vacation leave of 10 to 19.34 hours per month, depending upon length of service. All Lottery employees may accumulate a maximum of 350 hours per employee. Accumulated vacation leave and accumulated compensatory time is recorded as an expense and a liability (compensated absences) as the benefits accrue to employees. The compensated absences liability is calculated based upon salary rates in effect at fiscal year end and includes taxes and retirement

costs. No liability is reported for accumulated sick leave benefits since employees are not paid for unused sick leave benefits when leaving State service.

2. Stewardship and Legal Compliance

A. Budgetary Compliance

The Oregon State Lottery is exempt from State of Oregon Budget Laws. For budgeting purposes, the Commission adopts an annual Financial Plan based on activities identified in Lottery's annual Business Plan and revenue forecasts prepared by the Oregon Department of Administrative Services, Office of Economic Analysis. Quarterly, budgeted revenues and direct expenses (prizes, commissions, game vendor charges, and tickets) are revised for changes to the revenue forecasts. Revisions to other expense items in the adopted budget must be approved by the Commission. The budget is prepared on the accrual basis of accounting. Actual expenses are monitored throughout the year for compliance with the approved budget and appropriate adjustments, if necessary, are presented to the Commission for approval. A comparison of revenues and expenses to the final revised and approved fiscal year 2012 Financial Plan is presented as supplementary information in this report.

B. Use of Revenues and Net Revenues

Article XV of the Oregon Constitution requires that all prizes and expenses of the Lottery be paid from Lottery revenues and any remaining proceeds be used to benefit the public purposes of economic development, public education, or restoring and protecting parks, beaches, watersheds and critical fish and wildlife habitats. ORS 461.500 requires that at least 84 percent of the total annual revenues be returned to the public in the form of prizes and net revenues benefiting the public purposes in the Constitution, that at least 50 percent of the total annual revenues be returned to the public in the form of prizes, and that no more than 16 percent of total annual revenues may be allocated for the payment of administrative expenses.¹ The following table shows that for fiscal year 2012 the Lottery operated within the legal limits defined by ORS 461.500:

<u>Revenues</u>		
Sales (Net of Provision for Bad Debt)	\$ 10,027,371,852	
Other Distributable Income	1,473,070	
Total Distributable Revenue	\$ 10,028,844,922	
<u>Distribution of Revenues</u>		
Revenues Returned to the Public:		
Prizes to the Public	\$ 9,193,135,860	91.67%
Unclaimed Prizes Paid/Due to Economic Development Fund	5,909,440	0.06%
Transfers Paid/Due to Economic Development Fund	523,652,688	5.22%
Total Revenues Returned to the Public	9,722,697,988	96.95%
Administrative Expenses	303,150,700	3.02%
Retained for Contingency Reserve	2,996,234	0.03%
Total Revenue Distribution	\$ 10,028,844,922	100.00%

¹ Attorney General Opinion No. 8220 advises that ORS 461.548 regarding Video LotterySM proceeds is unconstitutional and is not applicable. It is not included here.

C. Unclaimed Prizes

ORS 461.500 requires all unclaimed prizes to be allocated to the benefit of public purpose. Lottery administrative rules declare a prize as unclaimed when it is known that winning shares have been sold and have not been redeemed within one year of the end of the game, one year from the draw date, or one year from the date of issue. In fiscal year 2012, prizes in the amount of \$5,909,440 were determined to be unclaimed and were either transferred or accrued for transfer to the Economic Development Fund.

D. Contingency Reserve

ORS 461.510 (4) and Administrative Rule 177-010-0045 allows for the creation of a contingency reserve. In May 2012, the Lottery Commission approved a contingency reserve amount such that the cash available for future investment does not exceed \$85,000,000. The following table shows the liquidity detail of Unrestricted Net Assets shown on the Balance Sheet at June 30, 2012:

Cash Available for Future Investment (Uncommitted Contingency Reserve)	\$ 84,373,616
Committed by Contract for Asset Purchases (See Note 12.A.)	4,642,556
Committed by Commission for Capital Purchases	1,577,807
Inventory, Prepaid Expenses, Prize Reserves	5,839,309
Total Unrestricted Net Assets	\$ 96,433,288

E. Transfers to Economic Development Fund

All income remaining after increasing the contingency reserve (Note 2.D.) and Transfers to the General Obligation Bond Fund was accrued for Transfer to the Economic Development Fund. Actual cash transferred, including unclaimed prizes, during fiscal year 2012 was \$549,050,660. The remaining balance is included on the Balance Sheet in liabilities. The following schedule reconciles the amounts:

	Balance Owed at June 30, 2011	Amounts Accrued	Cash Paid to Economic Development	Balance Remaining at June 30, 2012
Income	\$ 144,657,872	\$ 523,652,688	\$ 543,643,419	\$ 124,667,141
Unclaimed Prizes	953,813	5,909,440	5,407,241	1,456,012
Total	\$ 145,611,685	\$ 529,562,128	\$ 549,050,660	\$ 126,123,153

3. Deposits

The Office of the State Treasurer maintains the Oregon Short-Term Fund (OSTF), an investment pool available for use by state agencies and local governments. The Lottery uses the OSTF for all deposits. A separate financial report for the OSTF may be obtained from the Office of the State Treasurer, 350 Winter Street NE, Suite 100, Salem, OR 97301-3896 or from the Treasurer's website at [http://treasury.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-\(OSTF\).aspx](http://treasury.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-(OSTF).aspx).

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the State Treasurer will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Lottery does not have a policy regarding custodial credit risk for deposits; however, the insurance and collateral requirements for deposits in the OSTF are established by banking regulations and Oregon law. Where balances exceed the Federal Deposit Insurance amount of \$250,000, the balances are covered by collateral held in a multiple financial institution collateral pool administered by the Office of the State Treasurer. Except as provided in Oregon Revised Statute (ORS)

295.018, a bank depository that holds uninsured public funds deposits is required to pledge collateral with a value at least equal to its minimum collateral requirement and as otherwise prescribed in ORS 295.001 to 295.108.

For a well capitalized bank depository that has not been required to increase its collateral pursuant to ORS 295.018, the minimum collateral requirement is 10 percent of the greater of: all uninsured public funds held by the bank depository as shown on the most recent treasurer report; the average of the balances of uninsured public funds held by the bank depository as shown on the last two immediately preceding treasurer reports; or an amount otherwise prescribed in ORS 295.001 to 295.108. For a well capitalized bank depository that has been required to increase its collateral pursuant to ORS 295.018, the minimum collateral requirement is the percentage required by the State Treasurer pursuant to ORS 295.018 multiplied by the greater of: all uninsured public funds held by the bank depository as shown on the most recent treasurer report; the average of the balances of uninsured public funds held by the bank depository as shown on the last two immediately preceding treasurer reports; or an amount otherwise prescribed in ORS 295.001 to 295.108. The minimum collateral requirement for an adequately capitalized bank depository or an undercapitalized bank depository is 110 percent of the greater of: all uninsured public funds held by the bank depository; or the average of the balances of uninsured public funds held by the bank depository as shown on the last two immediately preceding treasurer reports.

Consequently, the bank balance of all public funds held by the OSTF is insured by the Federal Deposit Insurance Corporation or collateralized.

4. Investments

The State Treasurer is the Investment Officer for the State of Oregon. Investment standards are established in ORS 293.726 and require funds to be managed as a prudent investor would do. The Lottery does not have an investment policy.

A. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the State Treasurer will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Lottery's investments with the Office of the State Treasurer are registered in street name and held with the State Treasurer's agent in the name of the State of Oregon and segregated in the Treasurer's records in Lottery's name.

B. Credit Risk and Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Lottery holds \$24,902,235 of investments in the Resolution Funding Corporation (RFC), a U.S. government agency. These investments are not explicitly guaranteed by the U.S. government. However, interest payments are backed by the U.S. government, and the principal is protected by the purchase of zero-coupon bonds with an equivalent face value.

Concentration of credit risk is the risk of loss attributed to the magnitude of investments in a single issuer. The \$24,902,235 of investments in the RFC represents 19.2 percent of the Lottery's investment holdings.

C. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The length of time until maturity affects the exposure of the investment to fair value fluctuations. Lottery's investments are purchased to closely match the liability stream for prize payouts and are intended to be held until maturity.

The following table shows the segmented time distribution of the fair value of all Lottery investments at June 30, 2012:

Investment Type	Investment Maturities in Years				Fair Value
	Less than 1 Year	1-5 Years	6-10 Years	More Than 10 Years	
U.S. Agency Strips	\$ 4,166,189	\$ 16,240,203	\$ 3,222,872	\$ 1,272,971	\$ 24,902,235
U.S. Treasury Strips	2,442,185	34,077,640	29,696,598	38,347,561	104,563,984
Total Investments	\$ 6,608,374	\$ 50,317,843	\$ 32,919,470	\$ 39,620,532	\$ 129,466,219

5. Securities Lending

In accordance with State of Oregon (State) investment policies, state agencies may participate in securities lending. The Office of the State Treasurer has authorized its custodian to act as its agent in the lending of the State's securities pursuant to a form of loan agreement. There were no significant violations of the provisions of securities lending agreements during the fiscal year.

During fiscal year 2012, the State's securities lending agent lent short-term and fixed income securities from the OSTF and U.S. Government securities segregated to the Lottery and received as collateral U.S. dollar-denominated cash. Borrowers were required to deliver collateral for each loan equal to not less than 102 percent of the market value of the loaned securities. The State did not impose any restrictions during the fiscal year on the amount of the loans the securities lending agent made on its behalf. The State did not have the ability to pledge or sell collateral securities absent a borrower default; however, the Lottery and the State, through the State Treasurer's Securities Lending Agreements, are fully indemnified against losses due to borrower default. There were no losses during the year from the failure of borrowers to return loaned securities.

During the year, the State and borrowers maintained the right to terminate all securities lending transactions on demand. As a consequence, the maturities of investments made with cash collateral generally did not match the maturities of the securities loans. On June 30, 2012, the State and the Lottery had no credit risk exposure to borrowers related to securities on loan.

As of June 30, 2012, the total fair value of securities on loan from the OSTF was \$891,434,590, the collateral received was \$911,017,404 and the fair value of invested collateral was \$911,189,896. Cash collateral received for OSTF and Lottery investments is invested in a securities lending collateral pool and is not exposed to custodial credit risk.

The Lottery's allocated portion of the OSTF securities on loan and Lottery owned investments on loan at June 30, 2012, is presented in the following schedule:

	Securities Lending Balances		
	Fair Value of Securities on Loan	Collateral Received	Fair Value of Invested Cash Collateral
Lottery Share OSTF	\$ 27,068,695	\$ 27,663,334	\$ 27,668,571
Lottery Investments	78,193,687	80,151,565	80,166,741
Total	\$ 105,262,382	\$ 107,814,899	\$ 107,835,312

6. Capital Assets

Capital asset activity for the year ended June 30, 2012, is shown in the schedule below:

	Beginning Balance	Increases	Decreases	Ending Balance
Depreciable Capital Assets				
Equipment	\$ 150,239,921	\$ 667,089	\$ (4,521,379)	\$ 146,385,631
Computer Software	17,976,015	6,709,994	(3,238,570)	21,447,439
Building and Improvements	11,958,350	-	-	11,958,350
Vehicles	3,956,646	483,926	(403,593)	4,036,979
Leasehold Improvements	261,892	-	(104,659)	157,233
Total Assets Being Depreciated	184,392,824	7,861,009	(8,268,201)	183,985,632
Accumulated Depreciation				
Equipment	105,025,825	20,969,519	(4,410,850)	121,584,494
Computer Software	9,525,137	4,958,675	(2,764,258)	11,719,554
Building and Improvements	4,805,487	409,882	-	5,215,369
Vehicles	2,031,491	411,678	(277,157)	2,166,012
Leasehold Improvements	199,283	44,337	(104,659)	138,961
Total Accumulated Depreciation	121,587,223	26,794,091	(7,556,924)	140,824,390
Capital Assets, Net	\$ 62,805,601	\$ (18,933,082)	\$ (711,277)	\$ 43,161,242

7. Long-term Liabilities

As of June 30, 2012, there were 91 Oregon Lottery game winners with long-term annual prize payments. The estimated number of years remaining for payments extends to 53 years. Current prize liability shown on the Balance Sheet includes \$16,362,121 in estimated and actual prizes won that have not yet been claimed.

The following schedule presents changes in long-term liabilities as well as the amounts due in the next fiscal year:

	Long-term Liabilities				
	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Prizes	\$ 141,109,467	\$ 270,838,947	\$ (257,587,375)	\$ 154,361,039	\$ 29,320,053
Compensated Absences	2,713,540	362,870	(282,718)	2,793,692	1,843,837
Net OPEB Obligation	519,952	83,673	-	603,625	-
Contracts Payable	14,595	23,814	(26,502)	11,907	11,907
Total	\$ 144,357,554	\$ 271,309,304	\$ (257,896,595)	\$ 157,770,263	\$ 31,175,797

8. Video LotterySM Net Revenue

Video LotterySM revenue is reported net of prize expense in the Statement of Revenues, Expenses, and Changes in Fund Net Assets. The following schedule reconciles cash received with actual wagering and prize activity:

<u>Revenue</u>		<u>Prize Expense</u>	
Cash Received	\$ 2,550,711,035	Cash Paid Out	\$ 1,823,586,157
Dollars Won and Played	7,153,571,316	Dollars Won and Played	7,153,571,316
Total Revenue	<u>\$ 9,704,282,351</u>	Total Prizes	<u>\$ 8,977,157,473</u>
	Net Revenue =		\$ 727,124,878

9. Discounts and Allowances

Revenues are reported net of discounts, free plays and allowances in the Statement of Revenues, Expenses and Changes in Fund Net Assets. For the fiscal year ended June 30, 2012, sales revenue is reported net of \$1,094,675 in discounts and free plays and net of \$71,327 in allowances.

10. Joint Venture

The Multi-State Lottery Association (MUSL) was established September 16, 1987, to coordinate lottery games with larger prizes than the individual states could offer by themselves. The Oregon Lottery has been a participating member since the inception of MUSL. Each participating state sells its choice of MUSL products and keeps all profits earned. Participating states contribute amounts necessary to fund the estimated and actual prizes won, reserve prize pools, and the operating expenses of MUSL. The Oregon Lottery's share of MUSL's operating expenses for the fiscal year ended June 30, 2012, was \$64,711.

MUSL is governed by a board on which each member lottery is represented. Each member lottery has one vote. The Board's responsibilities to administer multi-state lottery games are performed through product groups, advisory committees, or panels staffed by officers and independent contractors as appointed by the Board. These officers and consultants serve at the pleasure of the Board and the Board prescribes their powers, duties, and qualifications. The Executive Committee carries out the budgeting and financing of MUSL, and the Board contracts annually with an independent auditor. Upon termination of the MUSL's existence, if such termination should occur, the member lottery would receive any proceeds determined available for distribution by the Board.

The fiscal year end for MUSL is June 30. Long-term liabilities of MUSL are limited to prize annuities due, which are fully funded through investments in U.S. Government Securities. The following schedule presents the summarized financial activity of MUSL as of June 30, 2012 and June 30, 2011 (in thousands):

	<u>2012</u>	<u>2011</u>
Assets	\$ 583,165	\$ 641,435
Total Assets	<u>\$ 583,165</u>	<u>\$ 641,435</u>
Liabilities	\$ 583,010	\$ 641,194
Net Assets - Unrestricted	155	241
Liabilities and Net Assets	<u>\$ 583,165</u>	<u>\$ 641,435</u>
Unrestricted Revenues	\$ 4,783	\$ 4,101
Unrestricted Expenses	4,869	4,364
Change in Unrestricted Net Assets	<u>\$ (86)</u>	<u>\$ (263)</u>

Separate financial statements for MUSL may be obtained from the Multi-State Lottery Association, Attention: Chuck Strutt, 4400 NW Urbandale Drive, Urbandale, Iowa, 50322.

11. Operating Lease Commitments

Operating leases are agreements for the use of property, plant or equipment. As of June 30, 2012, there were two lease agreements in effect that had a noncancelable lease term in excess of one year. The agreements cover video system equipment and equipment for the traditional (instant and draw game) sales processing system.

The original video agreement began in fiscal year 1996, and the most recent contract amendment extended the agreement through October 4, 2012. The agreement includes all necessary equipment for a central and backup video host system and has flat monthly rates of \$147,603.

The traditional system agreement was signed on October 3, 2007. The original agreement was amended in March 2012 and is effective through November 30, 2020. The Lottery currently leases 430 self-service kiosks for \$186.75 per month, per kiosk; and 3,100 monitors for \$7.50 per monitor, per month.

Lease expense for fiscal year 2012 for the video and traditional system equipment was \$3,013,866. Future minimum lease payments for these two lease agreements as of June 30, 2012 are shown in the schedule below:

Future Minimum Lease Payments	
<u>Year Ending June 30,</u>	Operating Leases
2013	\$ 1,685,439
2014	1,242,630
2015	1,242,630
2016	1,242,630
2017	1,242,630
2018-2021	4,245,653
Total Future Minimum Lease Payments	\$ 10,901,612

12. Other Significant Commitments and Contingencies

A. Commitments

At June 30, 2012, the Lottery had contractual commitments of \$4,642,556 for the purchase of gaming software and financial software implementation services. The purchases are expected to occur in the upcoming fiscal year. In addition, the Lottery contracts for services and the use of software associated with processing transactions for its traditional products. The contractor is paid a commission of 1.6999 percent of net sales for all traditional products. In fiscal year 2012, the Lottery had expenses of \$5,487,058 for traditional product commissions. The amount is included in Game Vendor Charges on the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

B. Unemployment Benefits

State employees who qualify are entitled to benefit payments during periods of unemployment. Each state agency is required to reimburse the Employment Department for benefit payments made to former employees. There is no practical method of estimating the amount of future benefit payments that may be made to former employees for wage credits earned prior to fiscal year end. Consequently, this potential obligation is not reported in the accompanying financial statements. Total reimbursements for unemployment benefits for the fiscal year ended June 30, 2012 were \$74,718.

13. Employee Retirement Plans

The Oregon Public Employees Retirement System (PERS) administers retirement plans for eligible Lottery employees. PERS is administered by the Public Employees Retirement Board (Board), as required by Chapters 238 and 238A of the Oregon Revised Statutes. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERS Fiscal Services Division, PO Box 23700, Tigard, Oregon 97281-3700.

A. Public Employees Retirement System Pension (Chapter 238)

Lottery employees who were plan members before August 29, 2003, participate in the Public Employees Retirement System (PERS) Pension, a cost-sharing multiple-employer defined benefit plan. The PERS retirement allowance is payable monthly for life and may be selected from several retirement benefit options. These options include survivorship benefits and lump sum payments. PERS also provides death and disability benefits. The Legislature has authority to establish and amend PERS pension benefits.

The Board establishes employer contributions based on actuarially determined rates. The funding policies provide for monthly employer contributions. The Lottery is required by statute to contribute actuarially computed amounts. The employer rate for a covered employee's salary for fiscal year 2012 was 8.8 percent. Lottery contributions for the fiscal year ended June 30, 2012, were approximately \$1,438,000. Contributions for fiscal year 2011 were approximately \$435,000 and \$329,000 for fiscal year 2010. These contributions were equal to the required contributions for each year. Beginning January 1, 2004, plan member contributions were no longer contributed to the PERS plan.

B. Oregon Public Service Retirement Plan (Chapter 238A)

The 2003 Oregon Legislature created the Oregon Public Service Retirement Plan (OPSRP), also a cost-sharing multiple-employer plan. OPSRP is a hybrid pension plan with two components: the Pension Program (defined benefit) and the Individual Account Program (defined contribution). Lottery employees hired after August 28, 2003 participate in OPSRP after completing six months of service. The OPSRP Pension Program provides a monthly pension payable for life as well as death and disability benefits. The Legislature has authority to establish and amend OPSRP pension benefits.

The Board establishes employer contributions based on actuarially determined rates. The funding policies provide for monthly employer contributions. The Lottery is required by statute to contribute actuarially computed amounts. The employer rate for a covered employee's salary for fiscal year 2012 was 7.44 percent. Lottery contributions for the fiscal year ended June 30, 2012, were approximately \$528,000. Contributions for fiscal year 2011 were approximately \$189,000 and \$156,000 for fiscal year 2010. These contributions were equal to the required contributions for each year.

Beginning January 1, 2004, PERS members became members of the Individual Account Program (IAP) portion of OPSRP. PERS members retain their existing PERS accounts, but member contributions are now deposited in the IAP account rather than into the member's PERS account. All covered employees are required by state statute to contribute 6.0 percent of their salary to the IAP. Current law permits employers to pay the employee contribution, which the Lottery has elected to do. The amount contributed by Lottery on behalf of employees for the fiscal years ended June 30, 2012, 2011, and 2010 were approximately \$1,427,000, \$1,456,000, and \$1,472,000, respectively. These contributions were equal to the required contributions for each year.

14. Other Postemployment Benefit Plans

The Public Employees Retirement Board contracts for healthcare insurance coverage on behalf of members of the Public Employees Retirement System (PERS). Retirees who are eligible for PERS healthcare coverage pay their own age-adjusted premiums. PERS administers two separate defined benefit other postemployment benefit (OPEB) plans. The Public Employees Benefit Board (PEBB) also administers an OPEB plan. Lottery retirees may be eligible to participate in any of these three OPEB plans.

A. Retirement Health Insurance Account

Plan Description. The Retirement Health Insurance Account (RHIA) is a cost-sharing multiple-employer defined benefit OPEB plan administered by PERS. As authorized by ORS 238.420, the RHIA plan provides a subsidy payment of up to \$60 toward the monthly cost of PERS-sponsored health insurance for eligible PERS members. The Legislature has authority to establish and amend benefit provisions. PERS issues a publicly available report that includes financial statements and required supplementary information. That report may be obtained by writing to PERS Fiscal Services Division, PO Box 23700, Tigard, Oregon 97281-3700.

Funding Policy. ORS 238.420 provides that contribution requirements of the participating employers be established and may be amended by the Public Employees Retirement Board (Board). The Board establishes the employer contribution rate based on the annual required contribution (ARC) of the employers, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. For the fiscal year ended June 30, 2012, the Lottery was required by statute to contribute 0.59 percent of PERS covered payroll and 0.50 percent of OPSRP covered payroll to fund the RHIA. Actual employer contributions made by Lottery for the current year were approximately \$132,000. Contributions for fiscal year 2011 and 2010 were approximately \$57,000 and \$51,000 respectively. Contributions were equal to the required contributions for each year. Plan members do not contribute to the RHIA plan.

B. Retiree Health Insurance Premium Account

Plan Description. The Retiree Health Insurance Premium Account (RHIPA) is a single-employer defined benefit OPEB plan administered by PERS. As authorized by ORS 238.415, the RHIPA plan provides for payment of the average difference between the health insurance premiums paid by retired state employees, under contracts entered into by the Public Employees Retirement Board, and health insurance premiums paid by state employees who are not retired. The Legislature has authority to establish and amend benefit provisions. PERS issues a publicly available report that includes financial statements and required supplementary information. That report may be obtained by writing to PERS Fiscal Services Division, PO Box 23700, Tigard, Oregon 97281-3700.

Funding Policy. ORS 238.415 provides that employer contributions be established and may be amended by the Public Employees Retirement Board (Board). The Board establishes the employer contribution rate based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. For the fiscal year ended June 30, 2012, the Lottery was required by statute to contribute 0.16 percent of PERS covered payroll and 0.11 percent of OPSRP covered payroll to fund the RHIPA. Plan members do not contribute to the RHIPA plan.

Annual OPEB Cost. For the fiscal year ended June 30, 2012, the Lottery's annual OPEB cost (expense) was approximately \$34,000 for the RHIPA which was equal to the ARC. Fiscal year 2011 and 2010 OPEB costs were approximately \$13,000 and \$10,000 respectively, and were equal to the ARC for each year. The State of Oregon's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2012 and the two preceding years were as follows:

RHIPA OPEB Plan - Annual OPEB Cost			
Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	1,497,000	100%	\$ -
6/30/2011	1,428,000	100%	-
6/30/2012	3,378,000	100%	-

Funded Status and Funding Progress. The funded status of the RHIPA plan as of December 31, 2011, the most recent actuarial valuation, was as follows (dollars in millions):

RHIPA OPEB Plan - Funded Status	
Actuarial Accrued Liability (AAL)	\$ 34.4
Actuarial Value of Plan Assets	4.5
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 29.9</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	13.1%
Covered Payroll	\$ 2,376.9
UAAL as a Percentage of Covered Payroll	1.3%

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

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

In the December 31, 2011 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial value of plan assets is equal to the fair market value of assets on the valuation date. The actuarial assumptions include: an 8.0 percent investment rate of return; projected payroll growth of 3.75 percent; an inflation assumption of 2.75 percent; and an annual healthcare cost trend rate graded from 6.9 percent in 2012 to 4.5 percent in 2029. The unfunded actuarial accrued liability for the RHIPA plan is being amortized as a level percentage of payroll using a remaining closed amortization period of 10 years.

C. Public Employees Benefit Board Plan

Plan Description. The Public Employees Benefit Board (PEBB) plan is an agent multiple-employer defined benefit OPEB plan administered by PEBB that offers medical, dental and vision benefits to eligible retired employees. ORS Chapter 243 assigns PEBB the authority to establish and amend the benefit provisions of the PEBB Plan. The PEBB does not issue a separate financial report.

Funding Policy. State agency employer contributions and the contribution requirements of active employee plan members who are not represented by labor unions are established and amended through a directive issued by authorized individuals for the executive branch of state government. The PEBB establishes annual premiums to be charged for various levels of healthcare coverage. The PEBB Plan funding policy provides for employer contributions at amounts sufficient to fund benefits on a pay-as-you-go basis. Active employees do not make contributions. Participating retirees pay their own monthly premiums based on a blended premium rate since retirees are pooled together with active employees for insurance rating purposes.

Annual OPEB Cost and Net OPEB Obligation. The amount of contributions in relation to the ARC made by Lottery on a pay-as-you-go basis for the fiscal year ended June 30, 2012 was \$81,756 and the OPEB cost was \$165,429. The schedule below presents the components of the annual OPEB cost and the increase in the net OPEB obligation for the State of Oregon for the year ended June 30, 2012. The portion of the ending Net OPEB obligation allocated to Lottery was \$603,625, which represents 0.91 percent of the State's liability.

PEBB OPEB Plan	
Annual Required Contribution (ARC)	\$ 19,965,939
Interest on Net OPEB Obligation	1,937,740
Adjustment to ARC	(3,690,933)
Annual OPEB Cost	18,212,746
Contributions Made	(9,000,840)
Increase in Net OPEB Obligation	9,211,906
Beginning Net OPEB Obligation	55,383,474
Ending Net OPEB Obligation	<u>\$ 64,595,380</u>

The State of Oregon's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2012 and the two preceding years were as follows:

PEBB OPEB Plan - Annual OPEB Cost			
Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	16,024,000	52.5%	47,736,474
6/30/2011	16,565,000	53.8%	55,383,474
6/30/2012	18,212,746	49.4%	64,595,380

Funded Status and Funding Progress. The funded status of the PEBB plan as of July 1, 2011, the most recent actuarial valuation, was as follows (dollars in millions):

PEBB OPEB Plan - Funded Status	
Actuarial Accrued Liability (AAL)	\$ 154.7
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 154.7</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0.0%
Covered Payroll	\$ 2,647.0
UAAL as a Percentage of Covered Payroll	5.8%

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

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

In the July 1, 2011 actuarial valuation, the entry age normal actuarial cost method was used. Significant actuarial assumptions include: a 3.5 percent rate of return on the investment of present and future assets; an initial medical healthcare cost trend rate of 4.03 percent and an ultimate rate of 5.5 percent; a dental healthcare cost trend rate of 2.73 percent in 2012 and 5.0 percent in all subsequent years; and an inflation rate of 2.75 percent. The unfunded actuarial accrued liability for the PEBB plan is being amortized using the level percentage amortization method and an open amortization period of 15 years.

15. Risk Financing

The State of Oregon administers property and casualty insurance programs covering State government through its Insurance Fund (included in the Central Services Fund). The Insurance Fund services claims for: direct physical loss or damage to state property; tort liability claims brought against the State, its officers, employees, or agents; workers' compensation; employee dishonesty; and faithful performance coverage for certain positions required by law to be covered and other key positions.

As a state agency, the Lottery participates in the Insurance Fund. The cost of servicing insurance claims and payments is covered by charging an assessment to each state agency based on its share of services provided in a prior period. The total statewide assessment for each coverage type is based on independent biennial actuarial forecasts and administrative costs, less any available equity in the Insurance Fund from the prior biennium. Lottery's fiscal year 2012 share of the 2011-2013 biennial assessment was \$513,287. For the Lottery, the amount of claim settlements did not exceed insurance coverage for each of the past three fiscal years.

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Required Supplementary Information

**Required Supplementary Information
Schedules of Funding Progress
Other Postemployment Benefit Plans**

(Dollars in Millions)

Public Employees Benefit Board (PEBB) Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/2007	\$ -	\$ 323.4	\$ 323.4	0%	\$ 2,187.2	14.8%
7/1/2009	-	161.7	161.7	0%	2,562.5	6.3%
7/1/2011	-	154.7	154.7	0%	2,647.0	5.8%

Retiree Health Insurance Premium Account (RHIPA) Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
12/31/2009	\$ 6.4	\$ 24.5	\$ 18.1	26.1%	\$ 2,371.8	0.8%
12/31/2010	5.7	33.9	28.2	16.8%	2,379.7	1.2%
12/31/2011	4.5	34.4	29.9	13.1%	2,376.9	1.3%

Notes to the Required Supplementary Information – Schedules of Funding Progress

The Public Employees Retirement System (PERS) issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERS Fiscal Services Division, PO Box 23700, Tigard, Oregon 97281-3700.

The Public Employees Benefit Board (PEBB) does not issue a financial report.



Supplementary Information

Oregon State Lottery
An Enterprise Fund of the State of Oregon
Budgetary (Non-GAAP) Basis Comparison Schedule
For the Fiscal Year Ended June 30, 2012
(See Note 2. A., Budgetary Compliance)

	Actual	Budget ¹	Variance Favorable/ (Unfavorable)
Revenue			
Video Lottery SM (Gross Receipts)	\$ 9,704,282,351	\$ 9,722,066,000	\$ (17,783,649)
Scratch-its SM Instant Tickets	117,521,750	116,742,000	779,750
Keno	93,456,813	93,884,000	(427,187)
Megabucks SM	37,539,720	38,142,800	(603,080)
Powerball®	38,777,424	38,161,720	615,704
Mega Millions®	22,208,222	21,938,800	269,422
Raffle SM	4,999,650	5,000,000	(350)
Win For Life SM	5,545,700	5,624,400	(78,700)
Lucky Lines SM	1,758,800	1,749,700	9,100
Pick 4 SM	1,352,749	1,354,700	(1,951)
Total Revenue	10,027,443,179	10,044,664,120	(17,220,941)
Prize Expense	9,199,045,301	9,204,117,000	5,071,699
Net Revenue	828,397,878	840,547,120	(12,149,242)
Direct Expenses			
Retailer Commissions	201,626,030	203,766,000	2,139,970
Game Vendor Charges	8,620,924	9,053,636	432,712
Tickets	4,640,444	5,099,000	458,556
Advertising	5,946,663	8,760,000	2,813,337
Sales Support	1,113,400	1,723,569	610,169
Game Equipment/Parts & Maintenance	1,925,220	2,264,960	339,740
Research	498,108	1,002,200	504,092
Depreciation	24,506,358	27,014,994	2,508,636
Total Direct Expenses	248,877,147	258,684,359	9,807,212
Gross Profit	579,520,731	581,862,761	(2,342,030)
Indirect Revenue			
Other Income (Loss)	1,115,086	951,000	164,086
Indirect Expenses			
Public Information	3,882,869	4,644,000	761,131
Personal Services	37,776,981	39,242,684	1,465,703
Services and Supplies	10,039,312	12,981,553	2,942,241
Depreciation	2,287,733	2,730,113	442,380
Total Indirect Expenses	53,986,895	59,598,350	5,611,455
Net Profit	\$ 526,648,922	\$ 523,215,411	\$ 3,433,511

¹Budget adopted by the Lottery Commission and adjusted by the Economic and Revenue Forecasts published by the Department of Administrative Services throughout the year.



Statistical Section

Statistical Section Index

This part of the Oregon State Lottery's comprehensive annual financial report presents detailed information to provide context for understanding what the information in the financial statements and note disclosures say about the Lottery's overall financial health.

Financial Trends

These schedules contain trend information to help the reader understand how the Lottery's financial performance has changed over time.

- Net Assets by Component
- Changes in Net Assets

Revenue Capacity

These schedules contain information to help the reader assess the Lottery's most significant revenue source, Lottery game sales income. The sales amounts reported for the top ten retailers and sales by county are based on Lottery's business year, which is slightly different than its fiscal year of July 1 through June 30. The business year begins on the Sunday following the last Saturday in June and ends on the last Saturday in the following June.

- Sales by Product
- Product Percent of Total Sales
- Top Ten Retailers
- Number of Lottery Retailers and Sales by County

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Lottery's financial activities take place.

- Demographic and Economic Data – State of Oregon
- Employment by Industry – State of Oregon
- Demographic Profile of Oregon Lottery Players

Operating Information

These schedules contain data to help the reader understand how the information in the Lottery's financial report relates to the products it provides and the activities it performs. There are many factors that impact the level of demand for Lottery products. Game themes, play-styles, price points, and prize payouts typically impact the sales of instant ticket games. For Video LotterySM, the level of demand is generally impacted by variety of game choices, entertaining and sophisticated graphics, and convenience of available retailer locations.

- Number of Employees
- Operating Indicators and Capital Asset Information

Note: The Lottery does not issue long-term debt; thus, information on debt capacity is not relevant.

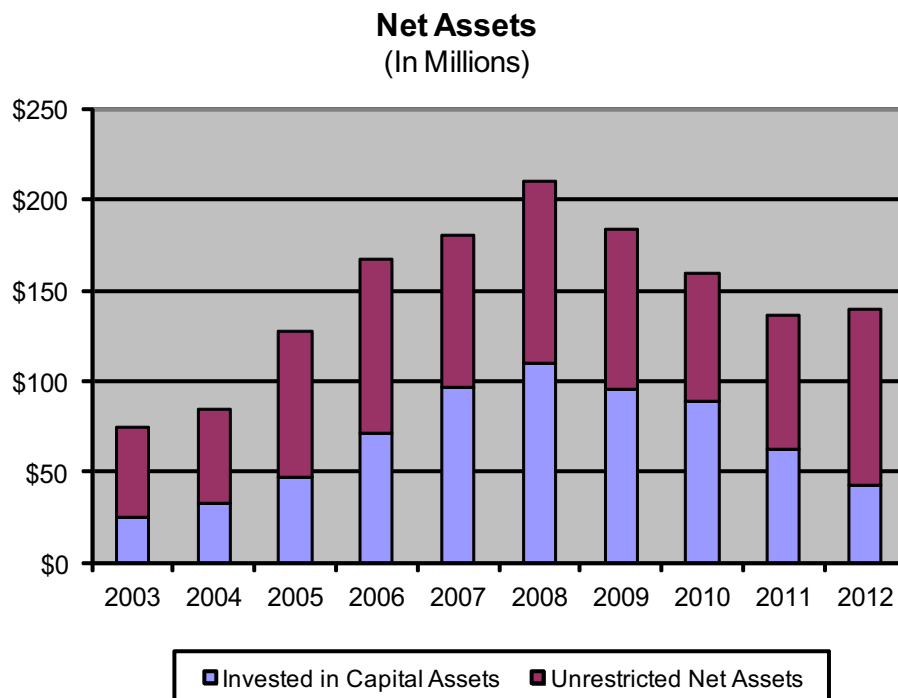
Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial report or the audited financial statements for the applicable year.

Oregon State Lottery

Net Assets by Component

Last Ten Fiscal Years

Fiscal Year	Invested in Capital Assets	Unrestricted Net Assets	Total Net Assets ¹
2003	\$ 25,748,947	\$ 49,251,053	\$ 75,000,000
2004	33,194,920	51,805,080	85,000,000
2005	47,552,216	80,097,104	127,649,320
2006	71,376,190	95,897,724	167,273,914
2007	96,675,840	83,030,082	179,705,922
2008	109,501,992	100,567,808	210,069,800
2009	95,689,630	88,353,446	184,043,076
2010	89,252,789	70,427,133	159,679,922
2011	62,805,601	73,792,695	136,598,296
2012	43,161,242	96,433,288	139,594,530



¹In fiscal year 2004, net assets of \$75,000,000 at June 30, 2003 were restated to \$74,170,254 with a prior period adjustment.

Note: The Lottery does not have any outstanding debt associated with its capital assets; thus, the caption Invested in Capital Assets, Net of Related Debt is not used.

Oregon State Lottery

Changes in Net Assets

Last Ten Fiscal Years

	2003	2004	2005	2006
Operating Revenues				
Sales:				
Video Lottery SM (Net Receipts)	\$ 498,712,314	\$ 530,966,187	\$ 579,650,266	\$ 732,888,437
Scratch-its SM Instant Tickets	133,102,008	132,731,374	133,241,896	127,244,323
Keno	111,341,872	116,478,125	122,196,298	116,240,045
Powerball [®]	45,107,076	45,974,759	35,004,855	59,070,621
Megabucks SM	44,516,150	46,473,330	48,283,356	37,771,877
Sports Action SM	9,862,974	10,063,790	11,292,930	12,105,674
Mega Millions [®]	-	-	-	-
Win For Life SM	5,990,520	5,475,972	5,559,882	5,914,469
Raffle SM	-	-	-	-
Lucky Lines SM	-	-	-	1,018,520
Pick 4 SM	1,591,390	1,381,483	1,386,714	1,405,501
Breakopen Instant Tickets	3,290,487	2,630,176	2,185,157	1,671,571
Scoreboard SM	-	1,087,911	1,022,163	643,913
Provision for Bad Debts	(154,345)	(133,563)	(294,516)	(29,002)
Other Income	414,175	332,697	361,798	234,719
Total Operating Revenues	853,774,621	893,462,241	939,890,799	1,096,180,668
Operating Expenses				
Prizes	248,666,215	232,122,621	245,125,049	236,638,134
Retailer Commissions	190,807,938	200,968,893	195,994,718	218,013,134
Salaries and Wages	25,607,562	24,496,409	23,860,802	25,873,708
Depreciation and Amortization	5,123,916	4,419,544	6,918,109	11,019,875
Services and Supplies	11,673,527	11,400,672	10,143,892	10,902,866
Game Vendor Charges	14,140,775	11,816,144	10,908,009	10,227,113
Advertising and Market Research	6,294,027	6,917,506	7,262,887	7,007,884
Public Information	2,743,140	3,124,828	3,106,149	3,858,646
Tickets	4,372,431	4,459,738	4,318,728	4,461,315
Game Equipment Parts and Maintenance	-	-	-	-
Sales Support	1,397,075	1,332,869	1,215,887	1,772,169
Total Operating Expenses	510,826,606	501,059,224	508,854,230	529,774,844
Operating Income	342,948,015	392,403,017	431,036,569	566,405,824
Nonoperating Revenues (Expenses)				
Interest and Investment Income (Loss)	16,817,879	(34,460)	15,862,977	8,357,783
Insurance Recoveries	-	49,867	69,315	34,111
Gain (Loss) on Disposition of Assets	37,825	32,123	(64,636)	(20,653)
Investment Expenses - Securities Lending	(483,488)	(837,276)	(1,525,023)	(2,998,549)
Total Nonoperating Revenues (Expenses)	16,372,216	(789,746)	14,342,633	5,372,692
Income Before Transfers	359,320,231	391,613,271	445,379,202	571,778,516
Transfers to Economic Development Fund	(358,890,776)	(380,579,755)	(401,581,250)	(531,032,111)
Transfers to General Obligation Bond Fund	-	(203,770)	(1,148,632)	(1,121,812)
Change in Net Assets	\$ 429,455	\$ 10,829,746	\$ 42,649,320	\$ 39,624,593

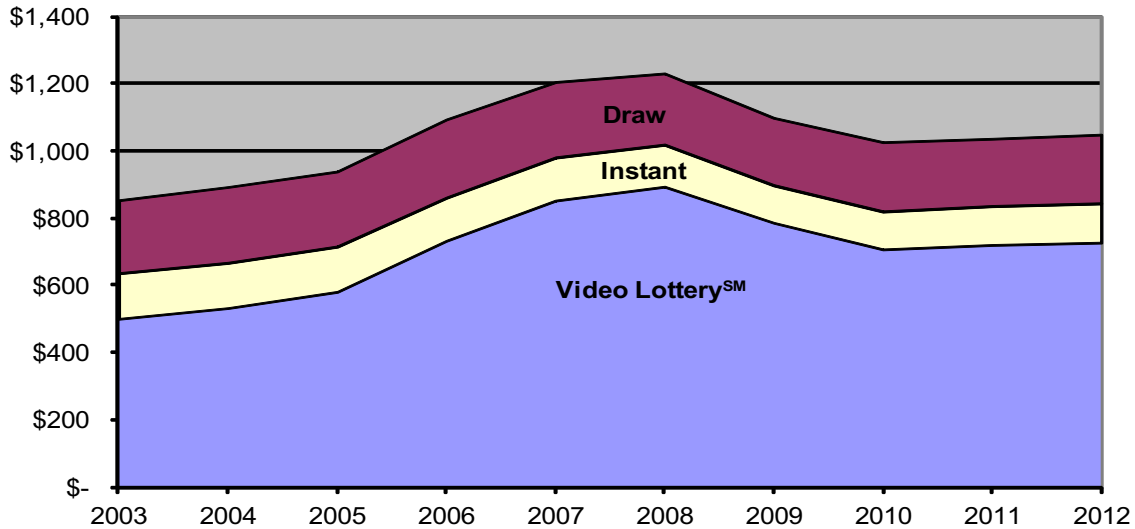
2007	2008	2009	2010	2011	2012
\$ 853,505,565	\$ 895,111,696	\$ 786,746,726	\$ 706,981,950	\$ 720,510,190	\$ 727,124,878
127,636,964	124,704,686	112,105,703	113,269,602	115,895,266	117,521,750
113,198,024	109,787,942	99,184,396	95,343,654	93,270,757	93,456,813
48,658,403	55,969,079	51,836,316	51,216,021	33,491,623	38,777,424
40,164,337	37,149,930	38,065,424	40,137,180	40,780,752	37,539,720
14,009,541	-	-	-	-	-
-	-	-	3,490,116	17,448,177	22,208,222
5,566,158	6,675,988	6,654,104	6,503,143	5,869,397	5,545,700
-	-	2,499,597	7,499,290	7,499,000	4,999,650
2,298,480	2,131,474	2,042,237	1,986,060	1,918,134	1,758,800
1,404,990	1,401,230	1,389,814	1,254,783	1,279,523	1,352,749
1,173,585	857,671	-	-	-	-
512,206	-	-	-	-	-
(56,434)	(7,797)	(128,699)	(112,559)	(128,164)	(71,327)
1,602,185	1,042,747	579,477	251,538	1,142,214	209,110
1,209,674,004	1,234,824,646	1,100,975,095	1,027,820,778	1,038,976,869	1,050,423,489
240,076,739	231,364,323	211,927,565	215,619,096	208,672,809	238,278,854
239,320,032	240,475,998	213,739,988	198,168,503	200,510,286	201,626,030
29,123,801	33,005,670	37,330,819	34,608,905	35,512,068	36,317,480
19,797,789	30,843,314	37,080,300	30,899,860	29,773,197	26,794,091
8,254,418	8,767,744	10,519,566	8,837,913	10,644,690	10,159,107
10,009,601	9,371,513	7,716,930	9,220,784	8,552,689	8,620,924
10,752,331	9,885,584	11,313,552	8,475,107	8,446,004	6,444,771
5,128,899	5,463,575	5,326,746	4,462,400	4,420,673	3,882,869
4,165,283	4,232,601	4,335,016	4,245,963	4,230,790	4,640,444
2,606,119	2,485,770	1,850,765	1,333,034	2,115,134	1,925,220
1,320,416	1,569,079	1,712,391	1,131,956	1,234,314	1,113,400
570,555,428	577,465,171	542,853,638	517,003,521	514,112,654	539,803,190
639,118,576	657,359,475	558,121,457	510,817,257	524,864,215	510,620,299
24,392,398	28,068,310	12,675,701	11,276,393	3,587,450	17,744,105
16,655	25,570	61,973	106,598	65,081	30,676
(517,562)	(317,204)	(1,767,242)	(5,323,677)	(2,919,876)	(147,802)
(5,352,243)	(5,047,007)	(808,660)	(192,727)	(237,391)	(138,855)
18,539,248	22,729,669	10,161,772	5,866,587	495,264	17,488,124
657,657,824	680,089,144	568,283,229	516,683,844	525,359,479	528,108,423
(644,030,352)	(648,408,187)	(592,846,506)	(539,582,457)	(546,996,892)	(523,652,688)
(1,195,464)	(1,317,079)	(1,463,447)	(1,464,541)	(1,444,213)	(1,459,501)
\$ 12,432,008	\$ 30,363,878	\$ (26,026,724)	\$ (24,363,154)	\$ (23,081,626)	\$ 2,996,234

Oregon State Lottery
Sales by Product
 Last Ten Fiscal Years

Draw Games

Fiscal Year	Video Lottery SM	Instant Products	Keno	Powerball®	Megabucks SM	All Other Games	Total
2003	\$498,712,314	\$136,392,495	\$111,341,872	\$45,107,076	\$44,516,150	\$17,444,884	\$ 853,514,791
2004	530,966,187	135,361,550	116,478,125	45,974,759	46,473,330	18,009,156	893,263,107
2005	579,650,266	135,427,053	122,196,298	35,004,855	48,283,356	19,261,689	939,823,517
2006	732,888,437	128,915,894	116,240,045	59,070,621	37,771,877	21,088,077	1,095,974,951
2007	853,505,565	128,810,549	113,198,024	48,658,403	40,164,337	23,791,375	1,208,128,253
2008	895,111,696	125,562,357	109,787,942	55,969,079	37,149,930	10,208,692	1,233,789,696
2009	786,746,726	112,105,703	99,184,396	51,836,316	38,065,424	12,585,752	1,100,524,317
2010	706,981,950	113,269,602	95,343,654	51,216,021	40,137,180	20,733,392	1,027,681,799
2011	720,510,190	115,895,266	93,270,757	33,491,623	40,780,752	34,014,231	1,037,962,819
2012	727,124,878	117,521,750	93,456,813	38,777,424	37,539,720	35,865,121	1,050,285,706

Sales by Product Type
 (In Millions)

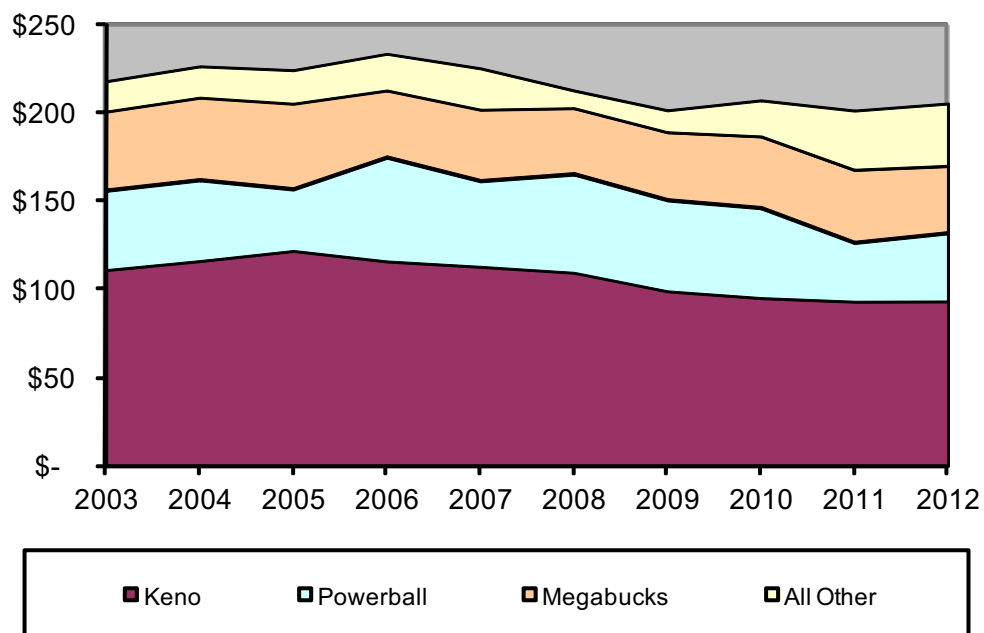


Oregon State Lottery
Product Percent of Total Sales
 Last Ten Fiscal Years

Draw Games

Fiscal Year	Video Lottery SM	Instant Products	Keno	Powerball®	Megabucks SM	All Other Draw Games
2003	58.4%	16.0%	13.1%	5.3%	5.2%	2.0%
2004	59.4%	15.2%	13.1%	5.1%	5.2%	2.0%
2005	61.7%	14.4%	13.0%	3.7%	5.2%	2.0%
2006	66.9%	11.8%	10.6%	5.4%	3.4%	1.9%
2007	70.6%	10.7%	9.4%	4.0%	3.3%	2.0%
2008	72.5%	10.2%	8.9%	4.6%	3.0%	0.8%
2009	71.5%	10.2%	9.0%	4.7%	3.5%	1.1%
2010	68.8%	11.0%	9.3%	5.0%	3.9%	2.0%
2011	69.4%	11.2%	9.0%	3.2%	3.9%	3.3%
2012	69.2%	11.2%	8.9%	3.7%	3.6%	3.4%

Draw Game Sales by Product
 (In Millions)



Oregon State Lottery
Top Ten Retailers
Current Year and Nine Years Prior

		2012		
<u>Rank</u>	<u>Retailer</u>	<u>Sales</u>	<u>Percent of Total Sales</u>	<u>County</u>
1	Deli Store	\$ 1,699,555	0.16%	Columbia
2	Dotty's #9	1,643,988	0.16%	Washington
3	Smokehouse Cafe #4	1,635,096	0.16%	Linn
4	Original Joe's	1,511,225	0.14%	Multnomah
5	Dotty's #24	1,495,081	0.14%	Multnomah
6	Shari's-Airport Way #218	1,472,257	0.14%	Multnomah
7	Glass House Tavern	1,404,813	0.13%	Multnomah
8	Jasper's Deli	1,400,564	0.13%	Lane
9	Cafe Del Toro	1,397,940	0.13%	Multnomah
10	Dotty's #6	1,380,131	0.13%	Washington
	Totals	<u>\$ 15,040,650</u>	<u>1.42%</u>	

Total Lottery Sales \$1,050,285,706

		2003		
<u>Rank</u>	<u>Retailer</u>	<u>Sales</u>	<u>Percent of Total Sales</u>	<u>County</u>
1	Farmhouse Restaurant	\$ 1,997,859	0.23%	Multnomah
2	Bradley's	1,677,341	0.20%	Multnomah
3	Glass House Tavern	1,546,134	0.18%	Multnomah
4	Purple Parrot #6	1,536,898	0.18%	Jackson
5	Dotty's #6	1,449,469	0.17%	Washington
6	River City Grill & Rotisseri	1,382,812	0.16%	Josephine
7	Purple Parrot #7	1,381,314	0.16%	Jackson
8	Smokehouse Cafe #4	1,378,647	0.16%	Linn
9	Fox Den Eatery, The #5	1,368,955	0.16%	Linn
10	Dotty's #17	1,366,324	0.16%	Washington
	Totals	<u>\$ 15,085,753</u>	<u>1.76%</u>	

Total Lottery Sales \$ 853,514,791

Source: Oregon State Lottery Research Department

Oregon State Lottery
Number of Lottery Retailers and Sales by County
For Business Year 2012

County	Sales		Retailers	
	Business Year Sales	Percent of Total Sales	Number of Lottery Retailers	Percent of Total Retailers
Multnomah	\$ 296,347,642	27.87%	947	24.25%
Washington	126,144,651	11.86%	350	8.96%
Clackamas	101,945,254	9.59%	332	8.50%
Marion	89,320,430	8.40%	326	8.34%
Lane	87,437,344	8.22%	351	8.98%
Jackson	49,566,540	4.66%	201	5.14%
Deschutes	36,433,643	3.43%	129	3.30%
Linn	32,954,858	3.10%	135	3.46%
Douglas	23,438,109	2.20%	132	3.38%
Josephine	20,636,446	1.94%	96	2.46%
Columbia	18,605,541	1.75%	62	1.59%
Umatilla	18,369,127	1.73%	78	2.00%
Yamhill	16,850,837	1.58%	79	2.02%
Klamath	16,289,011	1.53%	69	1.77%
Clatsop	16,241,474	1.53%	72	1.84%
Lincoln	13,722,143	1.29%	78	2.00%
Malheur	11,978,080	1.13%	37	0.95%
Coos	10,959,977	1.03%	54	1.38%
Polk	10,806,613	1.02%	56	1.43%
Benton	9,446,512	0.89%	47	1.20%
Tillamook	9,390,212	0.88%	48	1.23%
Wasco	8,646,185	0.81%	29	0.74%
Hood River	6,508,595	0.61%	24	0.61%
Crook	5,773,632	0.54%	27	0.69%
Union	5,547,472	0.52%	30	0.77%
Baker	4,378,091	0.41%	20	0.51%
Jefferson	3,877,191	0.36%	17	0.44%
Curry	3,738,463	0.35%	24	0.61%
Morrow	1,584,622	0.15%	10	0.26%
Grant	1,560,090	0.15%	11	0.28%
Sherman	1,438,835	0.14%	6	0.15%
Lake	1,335,034	0.13%	7	0.18%
Wallowa	886,830	0.08%	9	0.23%
Harney	840,273	0.08%	8	0.20%
Gilliam	206,434	0.02%	4	0.10%
Wheeler	192,171	0.02%	2	0.05%
Total	\$ 1,063,398,362	100.00%	3,907	100.00%

Source: Oregon State Lottery Research Department

Oregon State Lottery
Demographic and Economic Data - State of Oregon
 Last Ten Calendar Years

Calendar Year	Population ¹	Personal Income ¹ (in thousands)	Per Capita Personal Income	Annual Unemployment Rate ²
2002	3,513,424	\$ 104,689,803	\$ 29,797	7.6%
2003	3,547,376	108,486,910	30,582	8.1%
2004	3,569,463	112,973,834	31,650	7.3%
2005	3,613,202	117,634,076	32,557	6.2%
2006	3,670,883	127,403,090	34,706	5.3%
2007	3,722,417	133,821,268	35,950	5.2%
2008	3,768,748	140,975,982	37,407	6.5%
2009	3,808,600	133,907,191	35,159	11.1%
2010	3,838,332	137,820,653	35,906	10.7%
2011	3,871,859	145,299,628	37,527	9.5%

¹Source: U.S. Department of Commerce, Bureau of Economic Analysis

²Source: Oregon Employment Department

Oregon State Lottery
Employment by Industry - State of Oregon
Calendar Year 2011 and Nine Years Prior

	2011		2002	
	Number of Employees	Percent of Total	Number of Employees	Percent of Total
Health care and social assistance	256,708	11.55%	199,018	9.64%
Retail trade	230,165	10.36%	231,534	11.21%
Manufacturing	181,874	8.19%	212,297	10.28%
Accommodation and food services	157,452	7.09%	140,902	6.82%
Professional, scientific, and technical services	135,856	6.11%	111,219	5.39%
Administrative and waste services	115,218	5.19%	109,845	5.32%
Other services	115,152	5.18%	108,739	5.27%
Real estate, rental, and leasing	104,442	4.70%	76,481	3.70%
Construction	103,577	4.66%	115,273	5.58%
Finance and insurance	93,747	4.22%	80,782	3.91%
Wholesale trade	81,906	3.69%	80,422	3.90%
Farm employment	69,012	3.11%	69,440	3.36%
Transportation and warehousing	62,956	2.83%	63,036	3.05%
Educational services	55,534	2.50%	36,835	1.78%
Arts, entertainment, and recreation	53,558	2.41%	42,868	2.08%
Information	39,548	1.78%	41,203	2.00%
Management of companies	31,520	1.42%	26,761	1.30%
Forestry, fishing, and related activities	28,731	1.29%	30,433	1.47%
Mining	5,371	0.24%	3,074	0.15%
Utilities	4,753	0.21%	5,336	0.26%
Local government	180,275	8.11%	175,100	8.48%
State government	73,219	3.30%	62,022	3.00%
Federal government, civilian	28,837	1.30%	29,009	1.41%
Military	12,391	0.56%	13,151	0.64%
Total employment	<u>2,221,802</u>	<u>100.00%</u>	<u>2,064,780</u>	<u>100.00%</u>

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Note: Due to confidentiality issues, the names of the ten principal employers are not available. The categories presented are intended to provide alternative information regarding the concentration of employment in various business sectors.

Oregon State Lottery

Demographic Profile of Oregon Lottery Players

Last Ten Calendar Years

	2002	2003	2004	2005	2006
Number Surveyed	1,001	1,002	1,000	1,000	1,004
Player Percentage	47.2%	50.8%	50.9%	52.6%	49.0%
	Players	Players	Players	Players	Players
<u>Gender</u>					
Male	56%	53%	40%	51%	51%
Female	45%	47%	60%	49%	49%
<u>Age</u>					
18 - 24	9%	11%	14%	11%	14%
25 - 34	21%	18%	18%	18%	20%
35 - 44	23%	24%	17%	21%	19%
45 - 54	22%	21%	24%	18%	22%
55 - 64	13%	14%	14%	13%	13%
65 +	12%	13%	14%	18%	13%
<u>Education</u>					
Some High School	3%	5%	3%	2%	6%
High School Graduate	23%	22%	32%	25%	33%
College/Tech School	38%	42%	34%	39%	37%
College Graduate	24%	21%	21%	25%	17%
Graduate School/Degree	11%	11%	9%	9%	7%
<u>Marital Status</u>					
Single	22%	21%	23%	21%	22%
Married	56%	60%	65%	55%	54%
Co-habiting	5%	4%	3%	7%	7%
Divorced or Separated	12%	10%	6%	11%	13%
Widowed	5%	5%	3%	6%	4%
<u>Income</u>					
Less than \$15,000	9%	8%	10%	7%	8%
\$15,000 - \$49,999	45%	45%	50%	49%	44%
\$50,000 - \$74,999	21%	19%	16%	16%	20%
\$75,000 - \$99,999	10%	10%	6%	9%	10%
\$100,000 +	9%	8%	7%	7%	6%
Refused/Don't Know	6%	10%	11%	12%	12%

Sources:

Player information from Oregon State Lottery's Tracking Study

State information from U.S. Census Bureau, 2011 American Community Survey

2007	2008	2009	2010	2011	
1,001	1,003	1,002	1,000	1,000	
43.4%	42.2%	48.1%	50.7%	53.3%	
Players	Players	Players	Players	Players	2011 State Population
52%	54%	51%	48%	50%	49.4%
48%	46%	49%	52%	50%	50.6%
9%	8%	6%	10%	9%	9.4%
19%	19%	20%	19%	19%	13.7%
23%	22%	17%	17%	16%	12.9%
22%	23%	27%	26%	23%	13.7%
15%	18%	15%	15%	14%	13.7%
11%	11%	15%	14%	19%	14.3%
7%	8%	7%	4%	4%	10.6%
29%	26%	25%	21%	20%	25.1%
38%	36%	37%	37%	33%	35.0%
16%	20%	18%	20%	23%	18.4%
10%	10%	11%	16%	18%	10.9%
21%	17%	20%	22%	21%	29.8%
57%	56%	56%	58%	52%	50.1%
5%	9%	7%	6%	7%	n/a
12%	11%	10%	7%	11%	14.7%
5%	6%	5%	5%	6%	5.4%
8%	9%	11%	10%	10%	6.8%
44%	43%	44%	30%	31%	54.5%
17%	15%	18%	17%	16%	21.2%
12%	13%	11%	13%	11%	8.8%
10%	10%	9%	10%	14%	8.7%
9%	10%	8%	21%	18%	n/a

Oregon State Lottery
Number of Employees
 Last Ten Fiscal Years

	2003	2004 ²	2005 ²	2006 ²	2007 ³	2008 ⁴	2009 ⁵	2010	2011	2012 ⁶
Retail Operations	215	209	202	211	214	222	218	219	211	202
Support Services	137	126	121	124	135	148	157	151	151	143
Marketing	25	30	26	26	29	29	37	36	37	27
Director's Office	31	25	29	29	30	31	32	30	31	29
Security ¹	8	9	11	11	12	17	19	17	16	16
Total	416	399	389	401	420	447	463	453	446	417

Source: Oregon State Payroll System

¹Number of employees for Security excludes employees of the Oregon State Police.

²During fiscal year 2004 to 2006, some vacant positions were eliminated to reduce operating expenses.

³Positions were added in fiscal year 2007 to address the growth of the Lottery, to restore some vacant positions previously eliminated, and to build the infrastructure needed to support future growth.

⁴In fiscal year 2008, positions were added to support the Lottery's business that is driven by technology, expand into web-based products, and respond to system growth.

⁵During fiscal year 2009, vacant positions in Marketing were filled and some temporary employees were hired to assist with promotional Marketing activities.

⁶There were a significant number of positions vacant at year end due to a hiring freeze in effect during part of fiscal year 2012.

Oregon State Lottery
Operating Indicators and Capital Asset Information
 Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Number of Lottery Retailers¹</u>	<u>Number of Video LotterySM Terminals Deployed¹</u>	<u>Per Capita Sales²</u>
2003	3,368	9,434	\$ 242.93
2004	3,421	10,194	251.81
2005	3,484	10,438	263.30
2006	3,579	11,125	303.33
2007	3,691	11,831	329.11
2008	3,785	12,205	331.45
2009	3,855	12,365	292.01
2010	3,916	12,393	269.83
2011	3,901	12,202	270.42
2012	3,907	12,175	271.26

¹Source: Oregon State Lottery Records

²Source: Calculated based on population data from U.S. Department of Commerce, Bureau of Economic Analysis

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Other Reports

Office of the Secretary of State

Kate Brown
Secretary of State

Barry Pack
Deputy Secretary of State



Audits Division

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Elisa Dozono, Chair
Oregon State Lottery Commission
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the Oregon State Lottery, as of and for the year ended June 30, 2012, and have issued our report thereon dated November 16, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Oregon State Lottery is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Oregon State Lottery's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Oregon State Lottery's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Oregon State Lottery's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is

a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Oregon State Lottery's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Oregon State Lottery Commission, the Oregon State Lottery's management, others within the entity, the governor of the State of Oregon, and the Oregon Legislative Assembly and is not intended to be and should not be used by anyone other than these specified parties.

OREGON AUDITS DIVISION

A handwritten signature in black ink, appearing to read 'Kate Brown', with a long horizontal flourish extending to the right.

Kate Brown
Secretary of State

November 16, 2012

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APPENDIX C

SUMMARY OF THE MASTER INDENTURE

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Appendix C
Summary of the Master Indenture

As defined in this Official Statement, the "Master Indenture" includes the Third Restated Master Indenture and any Supplemental Indentures, including the Twenty-Fifth Supplemental Indenture. The following summary describes certain provisions of the Third Restated Master Indenture and the Twenty-Fifth Supplemental Indenture. Such summary and the provisions of the Master Indenture described in the Official Statement are qualified in their entirety by reference to the complete Third Restated Master Indenture and the Twenty-Fifth Supplemental Indenture. Copies of the Third Restated Master Indenture and the Twenty-Fifth Supplemental Indenture may be obtained, on payment of copying and shipping charges, from the Trustee or the Department.

The Master Indenture

The Master Indenture is executed by the State of Oregon, acting by and through its State Treasurer and its Department of Administrative Services, and Wells Fargo Bank, National Association, as Trustee.

Definitions

"2013 A Bonds" means the State of Oregon Department of Administrative Services Oregon State Lottery Revenue Bonds, 2013 Series A (Tax-Exempt), which are authorized by the Twenty-Fifth Supplemental Indenture.

"2013 AB&C Bonds" means the 2013 A Bonds, 2013 B Bonds, and the 2013 C Bonds.

"2013 B Bonds" means the State of Oregon Department of Administrative Services Oregon State Lottery Revenue Bonds, 2013 Series B (Federally Taxable), which are authorized by the Twenty-Fifth Supplemental Indenture.

"2013 C Bonds" means the State of Oregon Department of Administrative Services Oregon State Lottery Revenue Bonds, 2013 Series C (Federally Taxable Refunding), which are authorized by the Twenty-Fifth Supplemental Indenture.

"Act" means the Oregon Revised Statutes 286.560 to 286.580, and any amendments to those statutes.

"Additional Bonds" means obligations issued in accordance with the Act and the Master Indenture. Additional Bonds have a lien on the Pledged Revenues, which is on parity with the Bonds.

"Administrative Fund" means the fund of that name described in the Master Indenture.

"Annual Debt Service" means the amount required to be paid in a Fiscal Year of principal and interest on any Outstanding Bonds, calculated as follows: (a) interest which is to be paid from Bond proceeds shall be subtracted; (b) Bonds which are subject to scheduled, noncontingent redemption shall be deemed to mature on the dates and in the amounts which are subject to mandatory redemption, and only the amount scheduled to be outstanding on the final maturity date shall be treated as maturing on that date; (c) State Payments to be made in the Fiscal Year under a Parity Derivative Product shall increase Annual Debt Service, and Reciprocal Payments to be received in the Fiscal Year under a Parity Derivative Product shall reduce Annual Debt Service; (d) Bonds which are subject to contingent redemption shall be treated as maturing on their stated maturity dates; and (e) Variable Rate Obligations bear interest from the date of computation until maturity at their Maximum Rate.

"Appropriated Funds" for a particular Fiscal Year means any moneys, other than Unobligated Net Lottery Proceeds, specifically appropriated or otherwise specifically made available by the Legislative Assembly or the Emergency Board in the Fiscal Year to replenish reserves established as additional security for lottery bonds pursuant to a certification described in the Master Indenture.

"Authorized Officer" means: (i) in the case of the Issuer, the State Treasurer, or the Deputy State Treasurer as the designee of the State Treasurer, or any other person or persons designated in writing by the State Treasurer to act on behalf of the Issuer under the Master Indenture; (ii) in the case of the Department, the Director or Deputy Director of the Department, or any other person designated in writing by the Director to act on behalf of the Department under the Master Indenture; (iii) in the case of the Trustee, any person or persons authorized in writing to act on behalf of the Trustee under the Master Indenture.

"Bond Counsel" means a law firm having knowledge and expertise in the field of municipal law and whose opinions are generally accepted by purchasers of municipal bonds.

“Bond Fund” means the Lottery Bond Fund, which is described in the Master Indenture.

“Bond-related Costs” means:

- (a) The costs and expenses of issuing, administering and maintaining Bonds and the Bond program, such as paying or redeeming Bonds, paying amounts due in connection with Credit Facilities and paying the administrative costs and expenses of the Trustee, the State Treasurer and the Department, including costs of consultants or advisors retained by the State Treasurer or the Department for the Bonds or the Bond program;
- (b) The costs of funding any Bond reserves;
- (c) Capitalized interest for Bonds;
- (d) Rebates or penalties due to the United States in connection with Bonds; and
- (e) Any other costs or expenses that the State Treasurer or the Director of the Oregon Department of Administrative Services determines are necessary or desirable in connection with issuing or refunding Bonds or maintaining the Bond program.

“Bonds” means bonds issued by the Issuer as Oregon State Lottery Revenue Bonds under the Master Indenture, including the 2013 AB&C Bonds and any Additional Bonds.

“Business Day” means, with respect to the Bonds of any Series, any day other than (i) a Saturday, Sunday or legal holiday or a day on which banking institutions, in the city in which the principal office of the Trustee is located are closed, or (ii) a day on which the New York Stock Exchange is closed.

“Code” means the United States Internal Revenue Code of 1986, as the same may from time to time be amended or supplemented, including any regulations promulgated thereunder and any administrative or judicial interpretations thereof.

“Credit Facility” means a letter of credit, a municipal bond insurance policy, a surety bond, standby bond purchase agreement or other credit enhancement device which is obtained by the State to secure Bonds, and which is issued or provided by a Credit Provider whose long-term debt obligations or claims-paying ability (as appropriate) are rated in one of the two highest rating categories by a Rating Agency which rated the Bonds secured by the Credit Facility.

“Credit Provider” means the person or entity, if any, providing a Credit Facility as security for Bonds.

“Debt Service Account” means the account of that name in the Bond Fund.

“Debt Service Subaccount” means a subaccount in the Debt Service Account that is described in the Master Indenture.

“Dedicated Payment Subaccount” means the subaccount of that name in the Bond Fund.

“Default” means an event or condition the occurrence of which would, with the lapse of time or the giving of notice or both, become an Event of Default with respect to the Bonds.

“Defeasance Obligations” means (i) direct, noncallable obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury and principal-only and interest-only strips that are issued by the U.S. Treasury); or (ii) noncallable obligations the principal of and interest on which are unconditionally guaranteed by the United States of America; or (iii) any of the noncallable obligations of the following agencies:

- Senior, unsubordinated Federal Home Loan Mortgage Corp. (FHLMC)
Debt Obligations
- Senior, unsubordinated Federal Home Loan Banks (FHL Banks)
Consolidated debt obligations
- Senior, unsubordinated Federal National Mortgage Association (FNMA)
Debt obligations
- Senior, unsubordinated Farm Credit System
Consolidated system wide bonds and notes
- Senior, unsubordinated Resolution Funding Corp. (REFCORP)
Debt obligations, including strips by the Federal Reserve Bank of New York

- Financing Corp (FICO)
Debt obligations
- Senior, unsubordinated U.S. Agency for International Development (U.S. A.I.D.)
Guaranteed notes which mature at least four business days before the appropriate payment date
- The obligations of any other agency of the United States, or any corporation sponsored by the United States, if the Insurer approves those obligations in advance and in writing.

“Department” means the Department of Administrative Services of the State of Oregon.

“Derivative Product” means a written contract between the State and a Reciprocal Payor under which the State is obligated to pay the State Payments in exchange for the Reciprocal Payor's obligation to pay Reciprocal Payments, and which provides that the Reciprocal Payments are to be deposited directly into the Bond Fund and that the State is not required to fulfill its obligations under the contract if: (a) the Reciprocal Payor fails to make any Reciprocal Payment; or (b) the Reciprocal Payor fails to comply with its financial status covenants.

“Director” means the Director of the Department, the Deputy Director, or the person designated in writing by the Director to act as Director under the Master Indenture.

“Event of Default” means any occurrence or event designated as such in the Master Indenture.

“Fiscal Year” means the annual period which begins on July 1 and ends on the following June 30.

“Guaranteed Reserve Earnings” means the amounts earned on guaranteed investment contracts, repurchase agreements, United States Treasury obligations or other Investment Securities in the Reserve Account, but only if those Investment Securities pay a fixed rate of return, can be liquidated at par if the Master Indenture requires a transfer to the Debt Service Account, and do not otherwise terminate prior to the final maturity date of the Series of Bonds for which they were acquired.

“Insurer” means any issuer of a Credit Facility for Outstanding Bonds unless the issuer of that Credit Facility is in default on its payment obligations under that Credit Facility.

“Interest Payment Date” means a date on which Bond interest is required to be paid.

“Investment Securities” means any investment which Oregon law permits the State to purchase. However, “Investment Securities” does not include Reserve Credit Facilities.

“Issuer” means the State of Oregon acting by and through the State Treasurer of the State of Oregon.

“Master Indenture” means the Third Restated Master Indenture of Trust dated as of February 8, 2007, between the Issuer, the Department and the Trustee, together with any Supplemental Indentures, including the Twenty-Fifth Supplemental Indenture.

“Maximum Annual Debt Service” means the greatest Annual Debt Service, calculated on all Bonds, which are outstanding on the date of calculation.

“Maximum Rate” means the lesser of twelve percent per annum or the maximum interest rate, which a Variable Rate Obligation may bear under its authorizing documents.

“Minimum Amount” is equal to the sum of the amounts that the State is required to have in a subaccount under the following rule: Whenever the State issues a Series of Bonds that is secured by a subaccount in the Reserve Account, the State shall add to any required balance in the subaccount the lesser of (a) the amount required to make the balance in the subaccount equal to Maximum Annual Debt Service on all Outstanding Bonds then secured by that subaccount (with the additional Series treated as Outstanding); or (b) the Tax Maximum for the Series being issued. “Minimum Amount” may be calculated whenever a Series of Bonds is issued. When a Series of Bonds is paid, defeased or otherwise ceases to be secured by the subaccount, the Minimum Amount may be recalculated as if that Series had not been issued.

“Outstanding” refers to all Bonds which have been authenticated and delivered by the Trustee under the Master Indenture, except: (a) Bonds theretofore canceled by the Trustee or theretofore delivered to the Trustee for cancellation; (b) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered hereunder; and (c) any Bond deemed to have been paid as provided in the Master Indenture.

“Owner” means any person shown in the bond register as the registered owner of a Bond.

“Parity Derivative Product” means a Derivative Product, which qualifies as an Additional Bond in accordance with the Master Indenture.

“Paying Agent” means the fiscal agent of the State of Oregon, which is currently The Bank of New York.

“Payment Date” means a date on which Bond principal, interest or premium is required to be paid.

“Pledged Revenues” means: the Unobligated Net Lottery Proceeds; all amounts in any funds or accounts held by the Trustee under the Master Indenture (except any amounts which may have been reserved for payment of rebates which are due to the United States under Section 148 of the Code in connection with Bonds), including any Appropriated Funds which are deposited with the Trustee; all the State’s right, title and interest under any Credit Facility (including any money drawn or paid thereunder); and any amounts the State may subsequently pledge or commit to pay the Bonds.

“Prior Bonds” means all Outstanding Bonds that were issued before January 1, 2007.

“Prior Bonds Reserve Subaccount” means the subaccount in the Reserve Account that secures the Prior Bonds, the State of Oregon Department of Administrative Services Oregon State Lottery Revenue Bonds, 2009 Series C (Tax-Exempt), the State of Oregon Department of Administrative Services Oregon State Lottery Revenue Bonds, 2011 Series A, B and C, the State of Oregon Department of Administrative Services Oregon State Lottery Revenue Bonds, 2012 Series A, B and C, the 2013 AB&C Bonds, and any Series of Additional Bonds that the State subsequently elects to secure with the Prior Bonds Reserve Subaccount.

“Rating Agency” means any nationally recognized financial rating agency, such as Fitch Investors Service, Inc., Moody’s Investors Service, Standard & Poor’s Corporation, which has rated Outstanding Bonds or a Credit Facility at the request of the State.

“Reciprocal Payment” means scheduled payment to be made to, or for the benefit of, the State under a Derivative Product by or on behalf of the Reciprocal Payor, which is either fixed in amount or is determined according to a formula set forth in the Derivative Product.

“Reciprocal Payor” means a party to a Derivative Product (other than the State) that is obligated to make one or more Reciprocal Payments thereunder, and which has at least an “A” long term senior unsecured debt rating and an “A” rating from a Rating Agency for its obligations under the Derivative Product.

“Redemption Price” means the principal, interest and premium, if any, which is required to be paid upon redemption of Bonds prior to their scheduled maturity date.

“Reserve Account” means the Reserve Account in the Bond Fund as described in the Master Indenture.

“Reserve Credit Facility” means a Credit Facility issued for the purpose of funding, in lieu of cash or Investment Securities, all or any portion of the Reserve Requirement for a subaccount in the Reserve Account, under which the Reserve Credit Facility Provider agrees to unconditionally provide the Trustee with funds to transfer to the Debt Service Account if amounts are required to be withdrawn from that subaccount in the Reserve Account for deposit in the Debt Service Account, and which is issued or provided by a Reserve Credit Facility Provider whose long-term debt obligations or claims-paying ability (as appropriate) are rated in one of the two highest rating categories by a Rating Agency which rated the Bonds secured by the Credit Facility.

“Reserve Credit Facility Provider” means a person or entity providing a Reserve Credit Facility.

“Reserve Requirement” means the lesser of (i) Maximum Annual Debt Service on all Bonds that are Outstanding on the date of calculation and are secured by a subaccount in the Reserve Account, or (ii) the Minimum Amount for that subaccount. “Reserve Requirement” is calculated separately for each subaccount in the Reserve Account. Clause (i) of this definition shall be calculated based only on the Bonds that are Outstanding on the date of calculation (with any Series of Bonds that is being issued on the date of calculation treated as Outstanding and any Bonds that are paid, defeased or cease to be secured by the subaccount on or before the date of calculation treated as not Outstanding), and may be calculated each time any Bonds secured by that subaccount are issued, paid, defeased or otherwise cease to be secured by that subaccount.

“Series” refers to all Bonds authorized by a single document and delivered in exchange for payment on the same date, regardless of variations in maturity, interest rate or other provisions, so long as all those Bonds are payable from the same Bond Fund.

“State Payment” means any scheduled payment required to be made by or on behalf of the State under a Derivative Product which is either fixed in amount or is determined according to a formula set forth in the Derivative Product.

“State” means the State of Oregon, acting through any of its authorized officers or agencies, but does not include the Legislative Assembly of the State of Oregon.

“Subordinate Obligations” means obligations which have a lien on the Pledged Revenues, which is inferior to the lien of the Bonds.

“Supplemental Indenture” means any document amending, modifying or supplementing the Master Indenture, which is adopted in accordance with the Master Indenture.

“Tax Maximum” means, for any Series of Bonds, the lesser of: Maximum Annual Debt Service on that Series calculated based on the Bonds of that Series that are Outstanding on the date the Tax Maximum is calculated; 125% of average amount of principal, interest and premium, if any, required to be paid on that Series during all Fiscal Years in which that Series will be Outstanding, calculated as of the date of issuance of that Series; or, ten percent of the proceeds of that Series, as “proceeds” is defined for purposes of Section 148(d) of the Code calculated as of the date of issuance of that Series. However, the “Tax Maximum” shall be treated as zero and no amount need be added to a subaccount that secures a Series of Additional Bonds if: (i) the Series of Additional Bonds refunds Outstanding Bonds that are secured by that subaccount; (ii) the refunded Bonds are defeased when the refunding Bonds are issued; and (iii) the issuance of the refunding Bonds and the defeasance of the refunded Bonds will not cause Annual Debt Service on Bonds that are secured by that subaccount to increase by more than \$5,000 in any Fiscal Year.

“Trustee” means Wells Fargo Bank, National Association, as successor trustee to Wells Fargo Bank Minnesota, N.A., and its successor or successors and any other corporation, which may at any time be substituted in its place as Trustee pursuant to the Master Indenture.

“Twenty-Fifth Supplemental Indenture” means the Twenty-Fifth Supplemental Indenture of Trust dated the date of issuance of the 2013 AB&C Bonds that authorizes the 2013 AB&C Bonds.

“Unobligated Net Lottery Proceeds” means all revenues derived from the operation of the Oregon State Lottery, including any and all games or other activities which the Oregon State Lottery may operate in the future, except for:

- (a) The revenues used for the payment of prizes and the expenses of the Oregon State Lottery as provided in section 4 (4)(d), Article XV of the Oregon Constitution, and ORS 461.500 and 461.510;
- (b) The revenues required to be applied, distributed or allocated as provided in ORS 461.543 as it existed on the date of the Third Restated Master Indenture; and
- (c) The revenues required to be allocated to pay the Westside Lottery Bonds and any bonds issued to refund the Westside Lottery Bonds, to fund reserves for any of those bonds and to pay related costs of the Department of Transportation.

“Variable Rate Obligations” means any Bonds issued with a variable, adjustable, convertible, or other similar interest rate which changes during the term of the Bonds, and any State Payments or Reciprocal Payments under a Parity Derivative Product for which the interest portion of the payment is based on a rate that changes during the term of the Derivative Product.

“Westside Lottery Bonds” means the bonds issued by the State pursuant to the authority granted in ORS 391.140. The Westside Lottery Bonds shall be paid from the revenues derived from operation of the State Lottery before Lottery Bonds are paid.

Pledge

The State Treasurer, on behalf of the State and pursuant to the authority granted in the Act, grants, pledges, assigns and transfers to the Trustee and its successors and assigns, all right, title and interest of the State in and to the Pledged Revenues to have and to hold, but in trust for the equal and proportionate benefit and security of the Owners, without preference, priority or distinction except as expressly provided in the Master Indenture. In addition, the State pledges the Unobligated Net Lottery Proceeds available for transfer to the Reserve Account and the amounts described in the Master Indenture to pay amounts due to the Reserve Credit Facility Provider under or in connection with any Reserve Credit Facilities.

Bonds are Special Obligations

The Bonds shall be special obligations of the Issuer payable solely from and secured by a pledge of the Pledged Revenues and any Appropriated Funds as provided in the Master Indenture.

Funds And Accounts

The Bond Fund shall be held and administered by the Trustee in accordance with the Master Indenture. Until all Bonds are paid or deemed paid, amounts in the Bond Fund shall be used solely to pay Bond principal, interest and any Redemption Price as provided in the Master Indenture. The Bond Fund shall contain the Debt Service Account, and the Reserve Account.

The Debt Service Account shall contain the Dedicated Payments Subaccount, a Prior Bonds Debt Service Subaccount, and separate Debt Service Subaccounts for each subaccount that is created in the Reserve Account for all Bonds issued after the Prior Bonds. Amounts in the Debt Service Account shall be allocated among its subaccounts as follows: (a) first, amounts in the Dedicated Payments subaccount shall be allocated and credited to Debt Service Subaccounts as provided in instructions given by the Trustee; (b) second, amounts transferred to the Trustee for credit to the Debt Service Account shall be allocated among the Debt Service Subaccounts pro rata in order of Payment Dates and based on the amounts due to be paid from those subaccounts, after reduction for any amounts previously credited to those subaccounts; and (c) third, all transfers from a subaccount of the Reserve Account pursuant to the Master Indenture shall be credited to that subaccount's corresponding Debt Service Subaccount, and shall be applied only to pay Bonds that are secured by that subaccount in the Reserve Account. Except as described in the next sentence, amounts in the Debt Service Account shall be used solely to pay Bond principal, interest and redemption premium, if any, when due. If at any time during a Fiscal Year the sum of the balance in the Debt Service Account plus the amount available in the Dedicated Payments Subaccount exceeds the Annual Debt Service which remains to be paid in that Fiscal Year, the Trustee shall, at the request of the Department, disburse the excess to the order of the Department.

The Trustee shall transfer amounts from subaccounts in the Reserve Account to Debt Service Subaccounts as provided in the Master Indenture. The State may transfer to the Trustee for deposit in the Dedicated Payments Subaccount of the Debt Service Account amounts, which are not Unobligated Net Lottery Proceeds or Appropriated Funds, and may instruct the Trustee to apply the amounts so deposited to the payment of debt service on one or more Series of Bonds. The amounts so deposited which are available to pay debt service on Bonds in a Fiscal Year shall be transferred to the Debt Service Subaccounts for the Series that the State has instructed the Trustee to pay from the Dedicated Payments Subaccount, and shall be credited against the deposit to the Debt Service Account for that Fiscal Year, which is required under the Master Indenture and shall be applied to pay those Series of Bonds as provided in the Master Indenture.

Flow of Funds

As soon as practicable after the beginning of each Fiscal Year, and before any other payments or expenditures of the Unobligated Net Lottery Proceeds are made by the State, the State shall apply Unobligated Net Lottery Proceeds from the Administrative Services Economic Development Fund or, if Unobligated Net Lottery Proceeds in that fund are insufficient, from any other fund or account of the State that contains Unobligated Net Lottery Proceeds, for the following purposes, in the following amounts and in the following order of priority:

First, to the Trustee for credit to the Debt Service Account, an amount which, when added to the amount available in the Debt Service Account, makes the balance in the Debt Service Account at least equal to the Annual Debt Service due during that Fiscal Year;

Second, to the Trustee for credit to the subaccounts in the Reserve Account as provided in the Master Indenture, an amount which, when added to the amount on deposit in each subaccount of the Reserve Account, is necessary to restore the balance in all subaccounts in the Reserve Account to their Reserve Requirement;

Third, to the Trustee to pay amounts due under or in connection with any Reserve Credit Facility that are not paid from amounts described in the Master Indenture; and

Fourth, to the Administrative Fund, any amount which is required to pay any amounts due under a Credit Facility and any other Bond-related Costs which will be due during that Fiscal Year and for which funds are not otherwise available.

The transfers of Unobligated Net Lottery Proceeds required by the Master Indenture shall be satisfied and credited from the first Unobligated Net Lottery Proceeds received by the State, before any other allocation, appropriation or disbursement of the earnings of the Unobligated Net Lottery Proceeds is made in such Fiscal Year.

If the Unobligated Net Lottery Proceeds are not sufficient to make all the transfers described in the Master Indenture, then the available Unobligated Net Lottery Proceeds shall be distributed in the following order of priority: first, to the Debt Service Account; second, to the Reserve Account (transfers to the Reserve Account under this section shall be allocated among deficient subaccounts in the Reserve Account pro rata based on the amount of the deficiency in each of those subaccounts); third, to the Trustee to pay the amounts due under or in connection with any Reserve Credit Facility as provided in the Master Indenture; and fourth, to the Administrative Fund.

The State reserves the right to transfer funds other than Unobligated Net Lottery Proceeds and Appropriated Funds to the Trustee for deposit into the Dedicated Payment Account. Any such deposit shall be credited against the next transfer of Unobligated Net Lottery Proceeds to that Bond Fund which is required by the Master Indenture, so long as the amount credited to the Dedicated Payment Account does not exceed the debt service which is payable from that account in that Fiscal Year.

Payment of Bonds

On or before each Payment Date the Trustee shall withdraw from each subaccount in the Debt Service Account amounts equal to the principal, interest and Redemption Price, if any, due on the Bonds on such Payment Date, and shall transfer the amounts so withdrawn to the Paying Agent for payment of those Bonds.

Reserve Account

The State Treasurer covenants that the State shall maintain the Reserve Account and shall maintain a balance in each subaccount that the State establishes in the Reserve Account that is at least equal to the Reserve Requirement for that subaccount, but solely from the Pledged Revenues and any Appropriated Funds as provided in the Master Indenture.

Except as provided in the Master Indenture, amounts in each subaccount of the Reserve Account shall be transferred only to the Debt Service Subaccount corresponding to that subaccount in the Reserve Account, and used only to pay principal, interest and premium, if any, on the Series of Bonds that are secured by that subaccount in the Reserve Account, and only if amounts in the Debt Service Account that are credited to the corresponding Debt Service Subaccount are not sufficient to pay those amounts.

If the amount on deposit in the Debt Service Account fifteen calendar days prior to each Payment Date is not sufficient to pay the Bonds on that Payment Date, the Trustee shall allocate the deficiency among the Series of Bonds that have payments due on that Payment Date pro rata based on the amounts that are due to be paid on each Series and the amounts available to pay those Bonds in their corresponding Debt Service Subaccounts. The Trustee shall then transfer the amount of the allocated deficiency from each subaccount in the Reserve Account that secures a Series of Bonds with payments due on that Payment Date to the corresponding Debt Service Subaccount. The amounts so transferred shall be applied solely to pay Bonds that are secured by that subaccount.

1. If the subaccount from which the transfer will be made is funded with cash or Investment Securities this transfer shall be made fifteen calendar days prior to that Payment Date, or, if that Payment Date is not a Business Day, on the next Business Day.
2. If the subaccount from which the transfer will be made is funded with Reserve Credit Facilities the transfer shall be made as soon as the Reserve Credit Facility permits amounts to be withdrawn under it, but not earlier than fifteen calendar days prior to that Payment Date and not later than that Payment Date.

Unless the provisions in a Supplemental Indenture creating a subaccount in the Reserve Account provide to the contrary, if a subaccount in the Reserve Account holds more than one kind of asset, withdrawals from the subaccount shall be made in the following order of priority:

1. *First*, from any cash on deposit in that subaccount in the Reserve Account;
2. *Second*, from the liquidation proceeds of any Investment Securities on deposit in that subaccount of the Reserve Account; and
3. *Third*, pro rata from any Reserve Credit Facilities credited to that subaccount.

The Trustee shall liquidate investments held in the Reserve Account to the extent necessary to meet any deficiencies in the Debt Service Account.

In addition to payment of the Bonds that are secured by a subaccount in the Reserve Account:

1. Amounts that are transferred to a subaccount of the Reserve Account may be applied to pay amounts due in connection with Reserve Credit Facilities to the extent that those payments are necessary to restore the balance in the subaccount to its Reserve Requirement.
2. Amounts other than Reserve Credit Facilities that are credited to a subaccount of the Reserve Account may be applied to the final payment of Bonds that are secured by that subaccount.
3. If amounts that are credited to a subaccount of the Reserve Account exceed the Reserve Requirement for that subaccount, cash and Investment Securities in an amount equal to the excess in that subaccount may be transferred at the direction of the Director:

First, to restore the balance in any subaccount of the Reserve Account to the Reserve Requirement for that subaccount, but only if the State files with the Trustee an opinion of Bond Counsel to the effect that this use will not cause interest on any Bonds to become includable in gross income under the Code;

Second, to the State or to any account or subaccount held by the Trustee under this Master Indenture for any use as permitted by law, but only if the State covenants not to use those funds in a way that would cause interest on any Bonds to become includable in gross income, and that State files with the Trustee an opinion of Bond Counsel to the effect that this use will not cause interest on any Bonds to become includable in gross income under the Code;

Third, to the Debt Service Subaccount that corresponds to the subaccount in the Reserve Account from which the transfer is made.

The “Moral Obligation”

The Trustee shall notify the Department and all Insurers whenever the balance in the Reserve Account falls below the Reserve Requirement.

If amounts in the Reserve Account are transferred to the Debt Service Account pursuant to the Master Indenture, the Trustee shall value the Reserve Credit Facilities, Investment Securities and cash credited to each subaccount of the Reserve Account on the Business Day following the withdrawal. If any subaccount then contains an amount that exceeds its Reserve Requirement the excess shall, to the extent permitted by the Master Indenture, immediately be transferred to any subaccount that has a balance that is less than its Reserve Requirement. If, after any such transfer, the balance remaining in any subaccount of the Reserve Account on that Business Day is less than the Reserve Requirement for that subaccount, the Director of the Oregon Department of Administrative Services shall:

1. promptly notify the Governor of the State of Oregon that Appropriated Funds are required to allow the Bonds to be timely paid; and,
2. certify to the Legislative Assembly or, if the Legislative Assembly is not then in session, to the Emergency Board, the amount needed to restore the balance in all subaccounts of the Reserve Account to their required levels, and that the Legislative Assembly or the Emergency Board must provide Appropriated Funds to allow the Bonds to be timely paid.

The Legislative Assembly or the Emergency Board may provide Appropriated Funds in the amount certified by the Director. Any Appropriated Funds so provided shall immediately be transferred to the Trustee and used to restore the balances in the Reserve Account.

Unless the provisions describing a subaccount in the Reserve Account provide to the contrary, transfers to subaccounts in the Reserve Account pursuant to the Master Indenture shall be applied:

1. First, to pay all amounts due in connection with Reserve Credit Facilities to the extent necessary to restore the amount that is available to be withdrawn from that subaccount to the lesser of: the Reserve Requirement for that subaccount, or the maximum amount that is available to be drawn under the Reserve Credit Facilities;
2. Second, to replenish the balance in the Reserve Account with cash or Investment Securities.

The Prior Bonds Reserve Subaccount

The Trustee shall create and maintain the Prior Bonds Reserve Subaccount so long as any Bonds secured by the Prior Bonds Reserve Subaccount are Outstanding. On the date the Prior Bonds Reserve Subaccount is created the Trustee shall transfer all amounts in the Reserve Account to the Prior Bonds Reserve Subaccount. Except as provided in the Master Indenture, the State shall maintain a balance in the Prior Bonds Reserve Subaccount that is equal to the its Reserve Requirement, but solely from the Pledged Revenues and any Appropriated Funds as provided in the Master Indenture.

Except as provided in the Master Indenture, amounts credited to the Prior Bonds Reserve Subaccount shall be used only to pay Prior Bonds and each Series of Additional Bonds the State subsequently elects to secure with the Prior Bonds Reserve Subaccount, and only if amounts in the Debt Service Account are insufficient.

If a transfer described in the Master Indenture is required, the Trustee shall transfer from the Prior Bonds Reserve Subaccount to the Prior Bonds Debt Service Subaccount an amount equal to the deficiency allocated to the Prior Bonds Reserve Subaccount and apply the amount so transferred solely to pay the Prior Bonds and all other Series of Bonds that are secured by the Prior Bonds Reserve Subaccount.

If the State elects to secure other Series of Additional Bonds with the Prior Bonds Reserve Subaccount, the Supplemental Indenture for each of those Series of Additional Bonds shall state that the Series will be secured by the Prior Bonds Reserve Subaccount, and shall require that a deposit be made into the Prior Bonds Reserve Subaccount at closing of the Series of Additional Bonds that is sufficient to make the balance in Prior Bonds Reserve Subaccount at least equal to the Prior Bonds Reserve Requirement, calculated as if the Series of Additional Bonds is Outstanding.

The State may, by Supplemental Indenture, release the claim of any Series of Prior Bonds on the Prior Bonds Reserve Subaccount and secure that Series of Prior Bonds (the “Transferred Series”) with another subaccount in the Reserve Account, but only if the conditions stated in this section are satisfied.

1. The Transferred Series is secured by another subaccount in the Reserve Account that is, at the time of the release, funded at the Reserve Requirement for that subaccount, calculated based on all Series of Bonds that are secured by that subaccount, including the Transferred Series.
2. The State shall retain a balance in the Prior Bonds Reserve Subaccount that is equal to its Reserve Requirement.

The Administrative Fund

Amounts deposited in the Administrative Fund shall be held by the State and used for Bond-related Costs.

Investments

Amounts in the Bond Fund shall be invested at the direction of the State only in Investment Securities, which mature not later than the dates on which it is estimated that such moneys will be required to make the transfers and deposits required by the Master Indenture. Amounts in the Reserve Account other than Reserve Credit Facilities shall be invested either in Investment Securities, which have an average aggregate weighted term to maturity of not more than five years, or Investment Securities that are approved in advance and in writing by each Insurer. Investment Securities credited to the Reserve Account are treated as having a term of less than five years if they permit amounts to be withdrawn on reasonable notice to pay debt service. Investment securities in the Reserve Account shall be marked to market at least annually. Reserve Credit Facilities shall be valued at the amount available to be drawn

under the Reserve Credit Facilities. Amounts in the Administrative Fund shall be invested at the direction of the State, and may be invested in any securities, which are legal investments for the State of Oregon.

Earnings on the Debt Service Account shall be credited to the Debt Service Account. Whenever the balance in the Reserve Account is less than the Reserve Requirement, earnings on the Reserve Account shall be credited to the Reserve Account. If the balance in the Reserve Account equals or exceeds the Reserve Requirement, earnings on the Reserve Account shall be credited to the Debt Service Account. Earnings on the Administrative Fund shall be credited to the Administrative Fund.

The Trustee may act as principal or agent in the acquisition or disposition of any Investment Securities. The Trustee shall exercise its best efforts to sell through a process approved by the Department at the best price obtainable, or present for redemption, any Investment Securities to the credit of any fund or account created under the Master Indenture, whenever it shall be necessary in order to provide moneys to meet any required payment, transfer, withdrawal or disbursement from such fund or account, and the Trustee shall not be liable for any loss resulting from such a sale.

General Covenants

The State of Oregon makes the following covenants for the benefit of Owners:

Payment of Bonds

The Department, acting on behalf of the Issuer, shall cause the principal and Redemption Price of, and interest on every Bond to be paid as provided in the Master Indenture, but solely from the Unobligated Net Lottery Proceeds and any Appropriated Funds.

Except for any Appropriated Funds which may be made available, the Bonds shall not be payable from the general funds of the Issuer, the State or the Department and shall not constitute a legal or equitable pledge of, or lien or encumbrance upon, any of the assets or property of the Issuer, the State or the Department or upon any of their income, receipts or revenues, except as provided in the Master Indenture. The full faith and credit of the State are not pledged, either expressly or by implication, to the payment of the Bonds. No Owner shall ever have the right to compel any exercise of the taxing power of the State to pay any Bonds or the interest thereon, nor to enforce payment thereof against any property of the State except any moneys in the Pledged Revenues as provided in the Master Indenture.

Covenant to Budget and Appropriate Unobligated Net Lottery Proceeds

The Legislative Assembly has made continuing appropriations of Unobligated Net Lottery Proceeds to pay the Bonds. If these continuing appropriations are ever altered, the State covenants that it shall, subject only to the availability of Unobligated Net Lottery Proceeds, budget and appropriate in each Fiscal Year an amount of Unobligated Net Lottery Proceeds that, when added to other funds lawfully budgeted and appropriated and available for such purpose, shall be sufficient to pay Bonds which are then due, to maintain the balance in each subaccount of the Reserve Account at the Reserve Requirement for that subaccount, and to pay all amounts due to the providers of Credit Facilities.

Covenant to Continue to Operate Lottery

The State covenants with the Owners that it shall continue to operate the Oregon State Lottery until all Bonds are paid or defeased.

Authorization and Validity Covenants

The State represents and covenants that: (i) it is duly authorized under the Constitution and laws of the State, particularly the Act, to issue the Bonds of each Series and to pledge the Pledged Revenues in the manner and to the extent set forth in the Master Indenture and as shall be set forth in any Supplemental Indenture; (ii) all action on its part for the issuance of the Bonds of each Series will be duly and effectively taken; and (iii) the Bonds of each Series in the hands of the Owners thereof will be valid and binding special obligations of the Issuer according to their terms except to the extent enforceability may be subject to bankruptcy, moratorium, insolvency, similar laws affecting creditors' rights, and subject to the availability of equitable relief.

Liens and Pledges

The State covenants not to grant or create any lien on the Pledged Revenues or to issue any obligations which have a lien on the Pledged Revenues which is superior to the lien of the Bonds. The State covenants to issue obligations

which have a lien on the Pledged Revenues, which is equal or subordinate to the Bonds only in accordance with the Master Indenture.

Books and Accounts

The Department shall keep accurate records of the Pledged Revenues and the amounts held under the Master Indenture in accordance with generally accepted accounting principles applicable to governments, and such records (at reasonable hours and subject to the reasonable rules and regulations of the Department) shall be subject to the inspection of the Trustee, any Owner of any Bonds or their agents or representatives duly authorized in writing.

Westside Lottery Bonds

Except as provided below, the State covenants not to issue any “Additional Bonds” under the Master Indenture of Trust for the Westside Lottery Bonds, or any additional obligations which are payable from the “Pledged Revenues” as defined in the Master Indenture of Trust for the Westside Lottery Bonds.

The State may issue obligations which are payable from the “Pledged Revenues” as defined in the Master Indenture of Trust for the Westside Lottery Bonds, but only to refund the Westside Lottery Bonds which are outstanding on the date of the Master Indenture, and only if the debt service on the refunding obligations in each Fiscal Year in which the refunding obligations are scheduled to be paid does not exceed by more than \$5,000 the debt service which is scheduled to be paid in that Fiscal Year on the Westside Lottery Bonds which are refunded.

Additional Bonds

All Additional Bonds issued in accordance with the Master Indenture shall have a lien on the Pledged Revenues, which is equal to the lien of all other Outstanding Bonds.

General Requirements

The State may issue Additional Bonds for any lawful purpose, but only if:

1. No Event of Default under the Master Indenture has occurred and is continuing;
2. At the time of the issuance of the Additional Bonds there is no deficiency in the Debt Service Account;
3. The State identifies the subaccount in the Reserve Account that will secure the Additional Bonds, and the balances in all subaccounts of the Reserve Account, including the subaccount that secures the Additional Bonds, are at least equal to the Reserve Requirement for those subaccounts, with the Additional Bonds treated as Outstanding;
4. The sum of the Unobligated Net Lottery Proceeds for any twelve consecutive month period selected by the Department from the eighteen complete months preceding the issuance of the Series of Additional Bonds, plus the amount of any Guaranteed Reserve Earnings for that period, are at least four hundred percent (400%) of the Maximum Annual Debt Service on all Outstanding Bonds (with the Additional Bonds treated as Outstanding);
5. The Director certifies that the State’s most recent, formal forecast of lottery revenues (which shall have been prepared within the six month period preceding issuance of the Additional Bonds) indicates that Unobligated Net Lottery Proceeds, plus the amount of any Guaranteed Reserve Earnings for the twelve month period selected in the preceding paragraph, for each Fiscal Year in the forecast period will at least equal four hundred percent (400%) of the Maximum Annual Debt Service on all Outstanding Bonds (with the Additional Bonds treated as Outstanding); and,
6. The Director certifies that there has been no change in the Constitution of the State of Oregon, Oregon statutes, or the practices of the Oregon Lottery since the date of the forecast described in the preceding paragraph which would reasonably be expected to reduce the Unobligated Net Lottery Proceeds below four hundred percent (400%) of the Maximum Annual Debt Service on all Outstanding Bonds (with the Additional Bonds treated as Outstanding) in any Fiscal Year in which Outstanding Bonds (including the Additional Bonds) are scheduled to be paid.

The State shall not issue Variable Rate Obligations that may bear interest at a rate in excess of twelve percent per annum. The documents authorizing any Variable Rate Obligations shall prescribe the maximum interest rate per annum, which the Variable Rate Obligations may bear. In determining whether the State has complied with this provision, the State may take into account the effect of any Parity Derivative Product.

Refunding Bonds

The State may issue Additional Bonds to refund Outstanding Bonds without meeting the general requirements of the Master Indenture with respect to Additional Bonds but only if the debt service on the refunding Additional Bonds does not, in any Fiscal Year, exceed the debt service on the refunded Bonds by more than \$5,000.

Subordinate Obligations

The State may issue Subordinate Obligations only if:

1. The Subordinate Obligations are payable solely from the Unobligated Net Lottery Proceeds which are available in any Fiscal Year after all transfers and deposits have been made to the Bond Fund and the Administrative Fund which are required by the Master Indenture; and,
2. The Subordinate Obligations are not subject to acceleration; and,
3. The Subordinate Obligations state clearly that they are secured by a lien on or pledge of the Pledged Revenues, which is subordinate to the lien on, and pledge of, the Pledged Revenues for the Bonds.

Parity Derivative Products

A Derivative Product may be a Parity Derivative Product which is secured on a parity with Additional Bonds if the obligation to make State Payments under the Derivative Product qualifies as an Additional Bond under the Master Indenture, after the Reciprocal Payments under the Derivative Product are applied to reduce Annual Debt Service. Any Parity Derivative Product shall clearly state that it is a Parity Derivative Product and has qualified as an Additional Bond under the Master Indenture.

Default And Remedies

Events of Default

If any of the following events occurs, it is defined as and declared to be and to constitute an “Event of Default” for all Bonds:

1. Default in the due and punctual payment of principal, interest or premium on any Bond; or
2. The filing of a petition in bankruptcy or the seeking of a composition of indebtedness by the Issuer or the Department under the federal bankruptcy laws or under other applicable law of the United States or of the State, or the filing of any such petition against the Issuer or the Department that is not dismissed within a period of sixty (60) days from such filing; or
3. The Issuer or the Department shall default in the performance or observance of any other of the duties, covenants, obligations, agreements or conditions on the part of the Issuer or the Department to be performed or observed under the Master Indenture or the Act, but only if the default shall continue for ninety (90) days after written notice specifying such default and requiring the same to be remedied shall be given by the Trustee, or the Owners in accordance with the Master Indenture, and the State shall fail to take reasonable steps to remedy the default within that ninety-day period.

Remedies

Upon the occurrence of an Event of Default, the Trustee shall have the following rights and remedies with respect to each Series of Bonds (but shall exercise such rights with respect to a Series of Bonds only with the consent of each Insurer of that Series of Bonds):

1. the Trustee may pursue any available remedy at law or in equity or by statute to enforce the payment of the principal of and interest on the Bonds of each such Series then Outstanding (however, the Bonds shall not be subject to acceleration);
2. the Trustee by action or suit in equity may require the Issuer and the Department to account as if they were the trustee of an express trust for the Owners of Bonds;
3. upon the filing of a suit or other commencement of judicial proceedings to enforce any rights of the Trustee and of the Owners of Bonds of each such Series under the Master Indenture, the Trustee will be entitled, as a matter of right to the appointment of a receiver or receivers of the Pledged Revenues and the issues, earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment shall confer.

If an Event of Default occurs with respect to any Bonds the Trustee is obligated to exercise one or more of the rights, remedies and powers that the Trustee deems most expedient and in the interest of the Owners, but only if the Trustee is so requested by the Owners of a majority in principal amount of the Bonds then Outstanding and if the Trustee is indemnified to its reasonable satisfaction.

No right or remedy by the terms of the Master Indenture conferred upon or reserved to the Trustee (or to the Owners of Bonds) is intended to be exclusive of any other right or remedy, but each and every such right or remedy shall be cumulative. No delay or omission to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or shall be construed to be a waiver of any such Event of Default. No waiver of any Event of Default, whether by the Trustee, or by the Owners of Bonds, shall extend to or shall affect any subsequent Event of Default or shall impair any rights or remedies consequent thereon.

Notwithstanding anything to the contrary contained in the Master Indenture, neither the State, the Issuer nor the Department shall be liable for, or required to advance any moneys derived from any source other than the Pledged Revenues, the Bond proceeds and any Appropriated Funds for any of the purposes in the Master Indenture, whether for the payment of the principal or Redemption Price of, or interest on, the Bond or for any other purpose of, or liability recognized under, the Master Indenture.

Right of Owners of a Series of Bonds to Direct Proceedings

The Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right but only with the consent of the Insurer of their Bonds, if any, at any time during the continuance of an Event of Default of such Bonds, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Master Indenture, or for the appointment of a receiver or any other proceedings under the Master Indenture in accordance with the Master Indenture.

Application of Moneys

All moneys received by the Trustee pursuant to any right or remedy given or action taken under the provisions of the Master Indenture shall be applied first, to pay Bond interest which is then overdue, next to pay interest then due, next to pay principal which is then overdue, and finally to pay principal which is then due. If insufficient Pledged Revenues are available to pay all claimants within a category, payments shall be made ratably, based on amounts due, to all claimants within a category.

Rights and Remedies of Owners of Bonds

No Owner then Outstanding shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of the Master Indenture or for the execution of any trust of the Master Indenture or for the appointment of a receiver or any other remedy under the Master Indenture, unless (a) an Event of Default shall have occurred, (b) the Owners of not less than 50% in aggregate principal amount of the Bonds then Outstanding shall have made written request to the Trustee and shall have offered it reasonable opportunity either to proceed to exercise the remedies granted in the Master Indenture or to institute such action, suit or proceeding in its own name, (c) the Owners of Bonds then Outstanding shall have offered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request, and (d) the Trustee shall have refused, or for sixty (60) days after receipt of such request and offer of indemnification shall have failed to exercise the remedies granted in the Master Indenture, or to institute such action, suit or proceeding in its own name, and such request and offer of indemnity are declared in every case at the option of the Trustee to be conditions precedent to the execution of the powers and trusts of the Master Indenture, and to any action or cause of action for the enforcement of the Master Indenture, or for the appointment of a receiver or for any other remedy under the Master Indenture, it being understood and intended that no one or more Owners of the Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of the Master Indenture by his or their action or to enforce any right under the Master Indenture except in the manner provided in the Master Indenture, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Master Indenture and for the equal and ratable benefit of the Owners of all Bonds then Outstanding; provided, however, that nothing contained in the Master Indenture shall affect or impair the right of the Owner of any Bond to enforce the payment of the principal or Redemption Price of and interest on such Bond at and after the maturity thereof, or the obligation of the Issuer or the Department to pay the principal or Redemption Price of and interest on each of the Bonds issued under the Master Indenture to the respective Owners thereof at the time and place, from the source and in the manner expressed in the Bonds and in the Master Indenture and any Supplemental Indenture.

Termination of Proceedings

In case the Trustee or an Owner of a Bond shall have proceeded to enforce any right under the Master Indenture by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee or such Owner, then and in every such case the Issuer, the Department, the Trustee, and the Owners of Bonds shall be restored to their former positions and rights under the Master Indenture, respectively, and all rights, remedies and powers of the Trustee and the Owners shall continue as if no such proceedings had been taken.

Waivers of Events of Default

With the consent of each Insurer, the Trustee may and, upon the written request of the Owners of 50% in aggregate principal amount of all Bonds then Outstanding, shall waive any Event of Default which in its opinion shall have been remedied before the completion of the enforcement of any remedy under the Master Indenture; but no such waiver shall extend to any subsequent or other Event of Default, or impair any rights consequent thereon.

Notice of Certain Defaults; Opportunity of the Issuer to Cure Defaults

Anything in the Master Indenture to the contrary notwithstanding, no Default described in paragraph 3 under "Events of Default" above shall constitute an Event of Default until actual notice of such Default shall be given to the Issuer and the Department by registered or certified mail by the Trustee or by the Owners of not less than 50% in aggregate principal amount of all Bonds then Outstanding and the Issuer or the Department shall not have corrected the Default or caused the Default to be corrected within thirty (30) days following the giving of such notice; provided, however, that if the Default be such that it is correctable but cannot be corrected within the applicable period, it shall not constitute an Event of Default if corrective action is instituted by the Issuer or the Department within the applicable period and diligently pursued until the Default is corrected; provided, however, that in the event the Default is not correctable within ninety (90) days from the date following the giving of such notice, such Default shall constitute an Event of Default.

The Trustee shall promptly mail written notice of any Event of Default to each Owner of a Bond at the address shown in the Bond register maintained by the Paying Agent.

The Trustee

The Trustee makes no representation as to the validity or sufficiency of the Master Indenture other than its own authority to execute and deliver the same and to perform its trusts thereunder or of any Bonds issued thereunder or as to the security afforded by the Master Indenture, and the Trustee shall not incur any liability in respect thereof. The Trustee shall not be under any responsibility or duty with respect to the application of any moneys paid to the Issuer, the Department or the Paying Agent. The Trustee shall not be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect thereof, or to advance any of its own moneys, unless properly indemnified. Except as provided in the next paragraph, the Trustee shall not be liable in connection with the observance and performance of its duties and obligations under the Master Indenture except for its own negligence, misconduct or breach of fiduciary duty.

The Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default which may have occurred, undertakes to perform such duties and obligations and only such duties and obligations as are specifically set forth in the Master Indenture. In case an Event of Default has occurred (which has not been cured) the Trustee shall exercise such of the rights and powers invested in it by the Master Indenture, and use the same degree of care and skill in its exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

The Trustee shall be protected in acting upon any instrument believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may or may not be counsel to the Issuer or the Department, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Master Indenture in good faith and in accordance therewith.

Whenever the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Master Indenture, such matter (unless other evidence in respect thereof be therein specifically prescribed) may be deemed to be conclusively proved and established by a certificate of an Authorized Officer of the Issuer or the Department.

The Department shall pay the Trustee from time to time reasonable compensation for its services rendered under the Master Indenture. The Trustee shall have no lien on amounts held under the Master Indenture.

The Trustee may become the Owner of any Bonds, with the same rights it would have if it were not the Trustee. To the extent permitted by law, the Trustee may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners or to effect or aid in any reorganization growing out of the enforcement of the Bonds or the Master Indenture, whether or not any such committee shall represent the Owners of a majority in principal amount of the Bonds then Outstanding.

Resignation of Trustee

The Trustee may at any time resign and be discharged of the duties and obligations created by the Master Indenture by giving not less than sixty (60) days' written notice to the Issuer and the Department, and mailing notice thereof to the Owners of the Bonds then Outstanding, specifying the date when such resignation shall take effect, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed by the Issuer or the Owners, in which event such resignation shall take effect immediately on the appointment of such successor, or unless a successor shall not have been appointed by the Issuer or the Owners on that date, in which event such resignation shall not take effect until a successor is appointed.

Removal of Trustee

The Trustee may be removed at any time by an instrument or concurrent instruments in writing, filed with the Trustee, and signed by the Owners of a majority in principal amount of the Bonds then Outstanding or their attorneys-in-fact duly authorized, excluding any Bonds held by or for the account of the Issuer. So long as no Event of Default, or an event which, with notice or passage of time, or both, would become an Event of Default, shall have occurred and be continuing, an Authorized Officer of the Issuer may remove the Trustee at any time for just cause by notifying the Trustee in writing.

Appointment of Successor Trustee

In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, an Authorized Officer of the Issuer may appoint a successor in writing, but if the Issuer does not appoint a successor Trustee within forty-five (45) days then a successor may be appointed by the Owners of a majority in principal amount of the Bonds then Outstanding. After such appointment of a successor Trustee, the Issuer shall mail notice of any such appointment made by it or the Owners to the Owners of the Bonds then Outstanding.

If no appointment of a successor Trustee is made, the Trustee or the Owner of any Bond may apply to any court of competent jurisdiction to appoint a successor Trustee.

Any successor Trustee shall be a bank or trust company having the powers of a trust company and having capital stock and surplus aggregating at least \$50,000,000, if there be such a bank or trust company willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Master Indenture. The long-term obligations of any successor Trustee or its bank holding company shall be rated "Baa1" or better, and its short-term obligations shall be rated "P-2" or better, unless the rating agencies then rating the Bonds consent in writing to the use of another successor Trustee. If such bank or trust company publishes a report of condition at least annually pursuant to law or to the requirements of any supervising or examining authority, then the combined capital and surplus or such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

Amendments

Supplemental Indentures Not Requiring Consent of Owners

The Issuer, the Department and the Trustee may, without the consent of, or notice to, the Owners, enter into a Supplemental Indenture (which Supplemental Indenture shall thereafter form a part of the Master Indenture) for any one or more of the following purposes and at any time or from time to time:

To close the Master Indenture against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the Master Indenture on, the authentication and delivery of Bonds;

To add to the duties, covenants, obligations and agreements of the Issuer or the Department in the Master Indenture, other duties, covenants, obligations and agreements to be observed and performed by the Issuer

or the Department which are not contrary to or inconsistent with the Master Indenture as theretofore in effect;

To add to the limitations and restrictions in the Master Indenture, other limitations and restrictions to be observed by the Issuer or the Department which are not contrary to or inconsistent with the Master Indenture as theretofore in effect;

To add to the Events of Default in the Master Indenture additional Events of Default;

To authorize Additional Bonds;

To confirm, as further assurance, any security interest, pledge or assignment under, and the subjection to any security interest, pledge or assignment created or to be created by, the Master Indenture or the Pledged Revenues or of any other moneys, securities or funds;

To provide a Credit Facility for any Series of Bonds and to provide the extent to which the rights, responsibilities, obligations and benefits granted by the Master Indenture to the Owners of such series of Bonds may be transferred to any Credit Provider;

To modify any of the provisions of the Master Indenture in any other respect whatever, provided that (i) such modification shall be, and be expressed to be, effective only after all Bonds of each Series Outstanding at the date of the adoption of such Supplemental Indenture shall cease to be Outstanding;

To modify any of the provisions of the Master Indenture in any respect provided that the modifications affect only Bonds issued subsequent to the date of such modifications;

To comply with the provisions of any federal or state securities law, including, without limitation, the Trust Indenture Act of 1939, as amended, or to comply with Section 103 or Sections 141 through 150 of the Code, as amended, replaced or substituted;

To appoint a successor Trustee or additional paying agents;

To merge the Bond Fund so that all Bonds are payable from a single Debt Service Account and a single Reserve Account, to merge the Administrative Fund and to make related changes to the Master Indenture.

To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provisions in the Master Indenture;

To insert such provisions clarifying matters or questions arising under the Master Indenture as are necessary or desirable and are not contrary to or inconsistent with the Master Indenture as theretofore in effect; and

To make any other modification or amendment of the Master Indenture which the Issuer reasonably determines will not have a material adverse effect on the interests of Owners.

Supplemental Indentures Effective with Consent of Owners

The Master Indenture may be amended for any other purpose only upon consent of each Insurer of affected Bonds, and the Owners of not less than fifty-one percent in aggregate principal amount of all affected Bonds Outstanding for which there are no Insurers; provided, however, that no amendment shall be valid without the consent of Owners of one-hundred percent of the aggregate principal amount of the affected Bonds outstanding which:

1. Extends the maturity of any Bond, reduces the rate of interest upon any Bond, extends the time of payment of interest on any Bond, reduces the amount of principal payable on any Bond, or reduces any premium payable on any Bond, without the consent of the affected Owner; or
2. Reduces the percent of Owners required to approve Supplemental Indentures.

Consent of Owners

If Owner consent is required for a Supplemental Indenture, a copy of the Supplemental Indenture or brief summary, together with a request for consent shall be mailed to the Owners of Bonds (but failure to mail such copy and request shall not affect the validity of the Supplemental Indenture when consented to as provided in the Indenture).

Notice of Amendments

Promptly after the adoption of any Supplemental Indenture, the Trustee shall mail a notice, setting forth in general terms the substance thereof, to the Owners of each Series of Bonds affected by such amendment. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

Opinion of Bond Counsel

No Supplemental Indenture shall take effect until there is filed with the Trustee an opinion of Bond Counsel stating that such Supplemental Indenture is authorized or permitted by the Master Indenture, will comply with the Master Indenture and the Act, and will not adversely affect any exclusion from gross income for federal income tax purposes of interest paid on any Bonds.

Payment and Defeasance

Payment

The Issuer in any of the following ways may pay Bonds provided that the Issuer also pays or causes to be paid any other sums payable under the Master Indenture by the Issuer:

1. by paying or causing to be paid the principal of and premium, if any, and interest on the Bonds Outstanding, as and when the same become due and payable;
2. by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount to pay or redeem Bonds Outstanding; or
3. by delivering to the Trustee, for cancellation by it, Bonds Outstanding.

Upon payment of a Bond in accordance with the preceding paragraph then all liability of the Issuer in respect of that Bond shall cease, terminate and be completely discharged, except only that thereafter the Owner thereof shall be entitled to payment of the principal of and interest on such Bond by the Issuer, and the Issuer shall remain liable for such payment but only out of the money or securities deposited with the Trustee as aforesaid for its payment.

Defeasance

The State may defease and deem all or any portion of the Outstanding Bonds to be paid by:

1. irrevocably depositing money or noncallable Defeasance Obligations in escrow with an independent escrow agent which are calculated to be sufficient for the payment of Bonds which are to be defeased;
2. filing with the escrow agent an opinion from an independent, certified public accountant to the effect that the money and the principal and interest to be received from the Defeasance Obligations are calculated to be sufficient, without further reinvestment, to pay the defeased Bonds when due; and,
3. filing with the escrow agent an opinion of nationally recognized bond counsel to the effect that all conditions to defeasing the Bonds have been satisfied and that such defeasance will not cause interest on the Bonds to cease to be excludable from gross income under the Code.

If Bonds are defeased, all obligations of the State with respect to those defeased Bonds shall cease and terminate, except for the obligation of the State and the escrow agent to pay the defeased Bonds from the amounts deposited in escrow, and the obligation of the Trustee to continue to transfer Bonds as provided in the Master Indenture.

Unclaimed Funds

Subject to applicable escheat laws, any moneys held by the Paying Agent in trust for the payment of the principal of or premium, if any, or interest on any Bonds and remaining unclaimed for one year after the principal of all the Outstanding Bonds has become due and payable if such moneys were so held at such date, or two years after the date of deposit of such moneys if deposited after said date when all of the Bonds become due and payable shall be repaid to the Department free from the trusts created by the Master Indenture, and all liability of the Paying Agent with respect to such moneys shall thereupon cease.

Miscellaneous

Liability of the Issuer and the Department Limited to Pledged Revenues

Notwithstanding anything contained in the Master Indenture or in the Bonds, the Issuer and the Department shall not be required to advance any moneys derived from any source other than the Pledged Revenues, if the Bond proceeds and any Appropriated Funds for any of the purposes in the Master Indenture, whether for the payment of the principal or Redemption Price of, or interest on, the Bonds or for any other purpose of the Master Indenture.

No Personal Liability

No member, officer, agent or employee of the Issuer, the Trustee, or the Department shall be individually or personally liable for the payment of the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof, all such liability, if any, being expressly waived and released by each Owner by the acceptance of such Bonds.

The Issuer and Department Protected in Acting in Good Faith

In the exercise of the powers of the Issuer and the Department and their members, officers, employees and agents under the Master Indenture, or any other document executed in connection with the Bonds, the Issuer and the Department shall not be accountable to any Owner, the Trustee or any Owner for any action taken or omitted by it or its members, officers, employees and agents in good faith and believed by it or them to be authorized or within the discretion or rights or powers conferred.

Governing Law

The Master Indenture shall be governed in all respects including validity, interpretation and effect by, and shall be enforceable in accordance with, the laws of the United States of America and the State of Oregon. If any action, claim, suit or other proceeding is brought to interpret or enforce the provisions of the Master Indenture, such claims shall be brought exclusively in the Circuit Court for the State of Oregon in Marion County, Oregon.

The Twenty-Fifth Supplemental Indenture

The Issuer, the Department and the Trustee execute the Twenty-Fifth Supplemental Indenture to authorize the issuance of the 2013 AB&C Bonds under the Master Indenture. The Twenty-Fifth Supplemental Indenture describes the maturity schedule, redemption provisions and other terms specific to the 2013 AB&C Bonds.

The 2013 AB&C Secured by the Prior Bonds Reserve Subaccount

The 2013 AB&C Bonds shall be secured by the Prior Bonds Reserve Subaccount. At closing of the 2013 AB&C Bonds, the balance in the Prior Bonds Reserve Subaccount will be at least equal to the Reserve Requirement for the Prior Bonds Reserve Subaccount, calculated as if the 2013 AB&C Bonds are Outstanding.

Tax Matters

The Issuer and the Department covenant with respect to the 2013 A Bonds:

The Issuer and the Department shall comply with each requirement of the Code necessary to maintain the excludability of interest on the 2013 A Bonds from gross income for Federal income tax purposes.

The Department shall make any and all payments required to be made to the United States Department of the Treasury in connection with the 2013 A Bonds pursuant to Section 148(f) of the Code. Such payments shall not be made from amounts deposited in the Debt Service Account or the Reserve Account, but shall be made from the Administrative Funds for these Bonds.

Notwithstanding any other provision of the Master Indenture to the contrary, so long as necessary to maintain the exclusion from gross income of interest on the 2013 A Bonds for federal income tax purposes, the tax covenants contained in the Twenty-Fifth Supplemental Indenture shall survive the payment of the 2013 A Bonds and the interest thereon, including any payment or defeasance thereof pursuant to the Master Indenture.

Neither the Issuer nor the Department shall take or permit any action or fail to take any action the taking or omission of which would cause the 2013 A Bonds to constitute private activity bonds within the meaning of Section 141(a) of the Code, and the Issuer and the Department shall not take or permit any action or fail to take any action which would cause the 2013 A Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Code.

Proposed Amendments

By purchasing any of the 2013 AB&C Bonds, Owners of the 2013 AB&C Bonds are deemed to have irrevocably consented to the proposed amendments. The State may put an amendment described in this section into effect only if the State receives consent of each Insurer of Bonds that is affected by the amendments and has reserved the right to consent to amendments, and the consent of Owners of not less than fifty-one percent in aggregate principal amount of all Outstanding affected Bonds for which there are no Insurers, either because Owners are deemed to have consented to the amendment or the State has obtained consent as provided in the Master Indenture of Trust.

General Amendments

All Owners of Bonds issued on or after April 2, 2009 have been deemed to consent to the following amendments:

1. Investment Securities and Reserve Credit Facilities will be valued on July 1 of each year (or the first Business Day thereafter, if July 1 is not a Business Day), any day on which amounts are transferred out of a subaccount in the Reserve Account, and any date on which Additional Bonds are issued.
2. Except as provided in 3. below, Investment Securities will be valued at their market value as reasonably estimated by the Trustee.
3. An Investment Securities in the form of a guaranteed investment contract or a similar instrument (a "GIC"):
 - (a) Will be valued at the amount available to be drawn on it unless the provider and all guarantors are bankrupt or insolvent;
 - (b) Shall be valued taking into account the value of any collateral held to secure the obligations of the provider under the GIC, as reasonably estimated by the Trustee, if the provider and all guarantors are bankrupt or insolvent;
 - (c) Shall have no value if the provider and all guarantors are bankrupt or insolvent and the GIC is not collateralized.
4. If the provider of a GIC and all guarantors are bankrupt or insolvent and the GIC is not fully collateralized the State shall replace the uncollateralized amount of the GIC by depositing Unobligated Net Lottery Proceeds into the Reserve Account pursuant to the Master Indenture over a period of five years in substantially equal annual amounts.

The following limitation is placed on the consent given by the Owners of the 2013 AB&C Bonds to the proposed amendment described in this section 4 of the General Amendments. The State shall not implement this amendment in a way that would reduce the amount that the State would otherwise be required to request from the Legislative Assembly or the Emergency Board under the Master Indenture below an amount sufficient to restore the balance in each subaccount of the Reserve Account to an amount that is at least equal to the amount of the next scheduled withdrawal from the Debt Service Account to pay principal, interest and any premium on the Bonds that are secured by that subaccount.

5. The rating requirement for a Reserve Credit Facility Provider applies only at the time the Reserve Credit Facility is purchased.
6. A Reserve Credit Facility is valued at the amount available to be drawn on it unless a Reserve Credit Facility Provider and any reinsurer or guarantor of the obligations of that Reserve Credit Facility Provider under the Reserve Credit Facility are bankrupt or insolvent.
7. If a Reserve Credit Facility Provider and any reinsurer or guarantor of the obligations of that Reserve Credit Facility Provider under a Reserve Credit Facility are bankrupt or insolvent, the Reserve Credit Facility shall be deemed to have no value and the State shall replace the affected Reserve Credit Facility by depositing Unobligated Net Lottery Proceeds into the Reserve Account pursuant to the Master Indenture over a period of five years in substantially equal annual amounts.
8. The State may issue Additional Bonds if all required deposits to all subaccounts of the Reserve Account have been made, notwithstanding that one or more subaccounts may contain less than their Reserve Requirements.

Westside Lottery Bonds Amendments

All Owners of Bonds issued on or after May 13, 2010 have been deemed to consent to amendments that eliminate all references to the Westside Lottery Bonds after all Westside Lottery Bonds are paid.

Special Amendments Relating to Interest Subsidy Bonds

All Owners of Bonds issued on or after May 13, 2010 have been deemed to consent to amendments described below, with additions shown in **bold underline** and deletions shown in ~~strikethrough~~.

1. Amendments to Section 2.1.

- (a) The definition of “Annual Debt Service” is hereby amended and restated as follows:

“Annual Debt Service” means the amount required to be paid in a Fiscal Year of principal and interest on any Outstanding Bonds, calculated as follows: (a) interest which is to be paid from Bond proceeds shall be subtracted; (b) Bonds which are subject to scheduled, noncontingent redemption shall be deemed to mature on the dates and in the amounts which are subject to mandatory redemption, and only the amount scheduled to be outstanding on the final maturity date shall be treated as maturing on that date; (c) State Payments to be made in the Fiscal Year under a Parity Derivative Product shall increase Annual Debt Service, and Reciprocal Payments to be received in the Fiscal Year under a Parity Derivative Product shall reduce Annual Debt Service; (d) Bonds which are subject to contingent redemption shall be treated as maturing on their stated maturity dates; ~~and~~ (e) Variable Rate Obligations bear interest from the date of computation until maturity at their Maximum Rate; **and (f) Subsidy Payments that the State is scheduled to receive for interest on Outstanding Bonds in the Fiscal Year shall be subtracted.**

- (b) The definition of “Appropriated Funds” is hereby amended and restated as follows:

“Appropriated Funds” for a particular Fiscal Year means any moneys, other than Unobligated Net Lottery Proceeds **and Subsidy Payments**, specifically appropriated or otherwise specifically made available by the Legislative Assembly or the Emergency Board in the Fiscal Year to replenish reserves established as additional security for lottery bonds pursuant to a certification described in Section 4.4(H) of this Master Indenture.

- (c) The definition of “Pledged Revenues” is hereby amended and restated as follows:

“Pledged Revenues” means: **(a)** the Unobligated Net Lottery Proceeds; **(b) any Subsidy Payments;** **(c)** all amounts in any funds or accounts held by the Trustee under the Master Indenture (except any amounts which may have been reserved for payment of rebates which are due to the United States under Section 148 of the Code in connection with Bonds) including any Appropriated Funds which are deposited with the Trustee; **(d)** all the State’s right, title and interest under any Credit Facility (including any money drawn or paid thereunder); and **(e)** any amounts the State may subsequently pledge or commit to pay the Bonds.

- (d) The following term and definition is hereby added to Section 2.1 of the Third Restated Master Indenture of Trust:

“Subsidy Payment” means any interest subsidy payments that the State is eligible to receive from the United States in connection with Bonds, including but not limited to subsidy payments by the federal government for Build America Bonds that are issued under the federal American Recovery and Reinvestment Act of 2009 or any similar legislation.

2. Amendments to Section 4.1.

- (a) Subsection (6) of Section 4.1(B) of the Third Restated Master Indenture of Trust is hereby amended and restated as follows:

The State may transfer to the Trustee for deposit in the Dedicated Payments Subaccount of the Debt Service Account amounts which are not Unobligated Net Lottery Proceeds,

Subsidy Payments or Appropriated Funds, and may instruct the Trustee to apply the amounts so deposited to the payment of debt service on one or more Series of Bonds. The amounts so deposited which are available to pay debt service on Bonds in a Fiscal Year shall be transferred to the Debt Service Subaccounts for the Bonds that the State has instructed the Trustee to pay from the Dedicated Payments Subaccount, and shall be credited against the deposit to the Debt Service Account for that Fiscal Year which is required under Section 4.2(A) and shall be applied to pay those Series of Bonds as provided in Section 4.3.

(b) The following subsection (7) is hereby added to Section 4.1(B) of the Third Restated Master Indenture of Trust:

The State covenants that it shall transfer any Subsidy Payments to the Trustee, or shall arrange to have the Trustee receive the Subsidy Payments directly. The Trustee shall deposit all Subsidy Payments that it receives into the Debt Service Subaccounts for the Bonds for which the Subsidy Payments are paid, and shall credit those deposits against the deposits that are required for that Fiscal Year under Section 4.2(A), and shall apply those deposits to pay those Series of Bonds as provided in Section 4.3.

3. Section 4.2 of the Third Restated Master Indenture of Trust is hereby amended and restated as follows:

(A) As soon as practicable after the beginning of each Fiscal Year, and before any other payments or expenditures of the Unobligated Net Lottery Proceeds are made by the State, the State shall apply Unobligated Net Lottery Proceeds from the Administrative Services Economic Development Fund **and Subsidy Payments** or, if Unobligated Net Lottery Proceeds in that fund **and Subsidy Payments** are insufficient, from any other fund or account of this state that contains Unobligated Net Lottery Proceeds, for the following purposes, in the following amounts and in the following order of priority:

First, and subject to 4.2(E), to the Trustee for credit to the Debt Service Account, an amount which, when added to the amounts available in the Debt Service Account and the Dedicated Payments Subaccount, makes the balance in the Debt Service Account, plus the amount available in the Dedicated Payments Subaccount, at least equal to the Annual Debt Service due during that Fiscal Year;

Second, to the Trustee for credit to the subaccounts in the Reserve Account as provided in Section 4.4, an amount which, when added to the amount on deposit in each subaccount of the Reserve Account, is necessary to restore the balance in all subaccounts of the Reserve Account to their Reserve Requirements;

Third, to the Trustee to pay any amounts due under or in connection with any Reserve Credit Facility that are not paid from amounts described in Section 4.2(A)(2); and,

Fourth, to the Administrative Fund, any amount which is required to pay any amounts due under a Credit Facility and any other Bond-related Costs which will be due during that Fiscal Year and for which funds are not otherwise available.

(B) The transfers of Unobligated Net Lottery Proceeds required by Section 4.2(A) shall be satisfied and credited from the first Unobligated Net Lottery Proceeds received by the State, before any other allocation, appropriation or disbursement of the earnings of the Unobligated Net Lottery Proceeds is made in such Fiscal Year.

(C) If the Unobligated Net Lottery Proceeds are not sufficient to make all the transfers described in Section 4.2(A), then the available Unobligated Net Lottery Proceeds shall be distributed in the following order of priority:

1. First, to the Debt Service Account.
 2. Second, to the Reserve Account. Transfers to the Reserve Account under this Section 4.2(C)(2) shall be allocated among deficient subaccounts in the Reserve Account *pro rata* based on the amount of the deficiency in each of those subaccounts.
 3. Third, to the Trustee to pay the amounts described in Section 4.2(A)(3).
 4. Fourth, to the Administrative Fund.
- (D) The State reserves the right to transfer funds other than Unobligated Net Lottery Proceeds, **Subsidy Payments** and Appropriated Funds to the Trustee for deposit into the Dedicated Payment Account. Any such deposit shall be credited against the next transfer of Unobligated Net Lottery Proceeds to that Bond Fund which is required by Section 4.1, so long as the amount credited to the Dedicated Payment Account does not exceed the debt service which is payable from that account in that Fiscal Year.
- (E) Whenever Subsidy Payments are received by the Trustee, if the Debt Service Account already contains an amount sufficient to pay the remaining Annual Debt Service for the Fiscal Year, the Trustee shall nevertheless deposit those Subsidy Payments in the appropriate Debt Service Subaccounts for the Bonds for which the Subsidy Payments are paid, and shall release an equal amount of Unobligated Net Lottery Proceeds that were previously deposited in the Debt Service Account, and apply the released Unobligated Net Lottery Proceeds pursuant to Section 4.2(A)(2), (3) and (4).

Amendments to Permit Installment Funding

All Owners of Bonds issued on or after March 31, 2011 have been deemed to consent to the amendments described below, with additions shown in **bold underline** and deletions shown in ~~strike through~~. These amendments may be made in conjunction with the amendments described in the section entitled, "Special Amendments Relating to Interest Subsidy Bonds" or may be made separately.

1. Amendment to Definition of Reserve Requirement

"Reserve Requirement" means the lesser of (i) Maximum Annual Debt Service on all Bonds that are Outstanding on the date of calculation and are secured by a subaccount in the Reserve Account, or (ii) the Minimum Amount for that subaccount. "Reserve Requirement" is calculated separately for each subaccount in the Reserve Account. Clause (i) of this definition shall be calculated based only on the Bonds that are Outstanding on the date of calculation (with any Series of Bonds that is being issued on the date of calculation treated as Outstanding and any Bonds that are paid, defeased or cease to be secured by the subaccount on or before the date of calculation treated as not Outstanding), and may be calculated each time any Bonds secured by that subaccount are issued, paid, defeased or otherwise cease to be secured by that subaccount. However, for purposes of Section 4.2, which describes application of Unobligated Net Lottery Proceeds to various accounts, including the Reserve Account, and for purposes of Section 6.1(A)(3), which describes the conditions under which the State may issue Additional Bonds, if the Trustee has determined pursuant to Section 4.2(A)(3) that an Investment Valuation Deficit has occurred for a subaccount in the Reserve Account, whenever the State or the Trustee is required to calculate the Reserve Requirement for that subaccount, the Reserve Requirement shall be reduced by the amount of transfers to the subaccount pursuant to Section 4.2(A)(3) that are not yet due.

2. Amendments to Section 4.2:

4.2. Flow of Funds.

- (A) As soon as practicable after the beginning of each **period described below**~~Fiscal Year~~, and before any other payments or expenditures of the Unobligated Net Lottery Proceeds are made by the State in each period, the State shall apply Unobligated Net Lottery Proceeds from the Administrative Services Economic Development Fund or, if

Unobligated Net Lottery Proceeds in that fund are insufficient, from any other fund or account of this state that contains Unobligated Net Lottery Proceeds, for the following purposes, in the following amounts and in the following order of priority:

(1) For the period from July 1 through September 30 of each Fiscal Year:

- (A) **First, to the Trustee for credit to the Debt Service Account, an amount which, when added to the amounts available in the Debt Service Account and the Dedicated Payments Subaccount, makes the balance in the Debt Service Account, plus the amount available in the Dedicated Payments Subaccount, equal to the greater of: (a) one half of the Annual Debt Service due during that Fiscal Year; or, (b) all Bond principal, interest and any redemption premium that is required to be paid on or before December 31 of that Fiscal Year.**
- (B) **Second, to the Trustee for credit to the subaccounts in the Reserve Account as provided in Section 4.4, an amount which, when added to the amount on deposit in each subaccount of the Reserve Account, is necessary to restore all deficits in the subaccounts of the Reserve Account that have resulted from a withdrawal from the Reserve Account to pay Bonds pursuant to Section 4.4(C) because amounts in the Debt Service Account were not sufficient to pay Bonds;**
- (C) **Third, to the Trustee to pay any amounts due during that period under or in connection with any Reserve Credit Facility that are not paid from amounts described in Section 4.2(A)(1)(B); and,**
- (D) **Fourth, to the Administrative Fund, any amount which is required to pay any amounts due under a Credit Facility and any other Bond-related Costs which will be due during that period and for which funds are not otherwise available.**

(2) For the period from October 1 through June 30 of each Fiscal Year:

- (A) First, to the Trustee for credit to the Debt Service Account, an amount which, when added to the amounts available in the Debt Service Account and the Dedicated Payments Subaccount, makes the balance in the Debt Service Account, plus the amount available in the Dedicated Payments Subaccount, at least equal to the Annual Debt Service due during that Fiscal Year;
- (B) Second, to the Trustee for credit to the subaccounts in the Reserve Account as provided in Section 4.4, any amount ~~which, when added to the amount on deposit in each subaccount of the Reserve Account, is necessary to restore the balance in all subaccounts of the Reserve Account to their Reserve Requirement~~ **that was required to be transferred to the Trustee pursuant to Section 4.2(A)(1)(B), but was not so transferred because Unobligated Net Lottery Proceeds were not sufficient to allow that transfer to be made;**
- (C) Third, to the Trustee to pay any amounts due **during that period** under or in connection with any Reserve Credit Facility that are not paid from amounts described in Section 4.2(A)(2)(B), **including any amounts due as described in Section 4.2(A)(3)(B) as a result of an Investment Valuation Deficit described in Section 4.2(A)(3);** and,
- (D) Fourth, to the Administrative Fund, any amount which is required to pay any amounts due under a Credit Facility and any other

Bond-related Costs which will be due during that period Fiscal Year and for which funds are not otherwise available.

- (3) For each Fiscal Year, commencing with Fiscal Year 2010-2011:**
- (A) The Trustee shall value the amounts in each subaccount of the Reserve Account as of July 1 of each Fiscal Year, (or the first Business Day thereafter, if July 1 is not a Business Day), any day on which amounts are transferred out of a subaccount in the Reserve Account, and any date on which Additional Bonds are issued.**
- (B) If the Trustee's valuation indicates that the balance in any subaccount of the Reserve Account is less than its Reserve Requirement as a result of an Investment Valuation Deficit, and the State has not been required to make transfers pursuant to this Section 4.2(A)(3) as a result of that Investment Valuation Deficit, then not later than the end of that Fiscal Year and the end of each of the four subsequent Fiscal Years, the State shall transfer not less than one-fifth of that Investment Valuation Deficit to the Trustee for credit to the Reserve Account until the earlier of the date on which the State has replenished that Investment Valuation Deficit or the balances all subaccounts in the Reserve Account are equal to their Reserve Requirements.**
- (C) If the Trustee's valuation indicates that Investment Valuation Deficit described in Section 4.2(3)(A) has increased during a period in which the State is making transfers pursuant to Section 4.2(A)(3)(A), the State shall make additional transfers over a period of five years to restore that increased Investment Valuation Deficit, beginning not later than the end of the Fiscal Year in which the increased Investment Valuation Deficit was determined and as provided in Section 4.2(A)(3)(A).**
- (D) For purposes of this Section 4.2(A)(3), "Investment Valuation Deficit" means the sum of the amounts by which the balances in all subaccounts of the Reserve Account are less than their Reserve Requirements as a result of the loss in value of investments or Reserve Credit Facilities or as a result of any other cause *except* a withdrawal from the Reserve Account to pay Bonds pursuant to Section 4.4(C) because amounts in the Debt Service Account were not sufficient to pay Bonds.**
- (E) An Investment Valuation Deficit shall be considered to have increased if investments credited to the Reserve Account lose additional value while the State is making transfers pursuant to Section 4.2(A)(3)(A).**
- (F) Each transfer to the Trustee for credit to the Reserve Account under this Section 4.2(A)(3) shall be allocated only among the subaccounts in the Reserve Account that had Investment Valuation Deficits causing the transfer. Allocations to each subaccount shall be in proportion to that subaccount's share of the Investment Valuation Deficit that caused the transfer. However, if any subaccount with Investment Valuation Deficit that caused a transfer reaches its Reserve Requirement before the other subaccounts causing that transfer have reached their Reserve Requirements, that transfer shall be allocated proportionately**

among the subaccounts that caused the transfer and have not reached their Reserve Requirements.

- (B) The transfers of Unobligated Net Lottery Proceeds required by Section 4.2(A) shall be satisfied and credited from the first Unobligated Net Lottery Proceeds received by the State **during each period described in Section 4.2(A)**, before any other allocation, appropriation or disbursement of the earnings of the Unobligated Net Lottery Proceeds is made in such **period Fiscal Year**.
- (C) If the Unobligated Net Lottery Proceeds are not sufficient to make all the transfers described in Section 4.2(A) **during each period described in Section 4.2(A)**, then the available Unobligated Net Lottery Proceeds shall be distributed in the following order of priority:
- (1) **First, to the Debt Service Account.**
 - (2) **Second, to the Reserve Account. Transfers to the Reserve Account under this Section 4.2(C)(2) shall be allocated among deficient subaccounts in the Reserve Account *pro rata* based on the amount of the deficiency in each of those subaccounts.**
 - (3) **Third, to the Trustee to pay the amounts described in Section 4.2(A)(3) or Section 4.2(A)(2)(3), as applicable.**
 - (4) **Fourth, to the Administrative Fund.**
- (D) The State reserves the right to transfer funds other than Unobligated Net Lottery Proceeds and Appropriated Funds to the Trustee for deposit into the Dedicated Payment Account. Any such deposit shall be credited against the next transfer of Unobligated Net Lottery Proceeds to that Bond Fund which is required by Section 4.1, so long as the amount credited to the Dedicated Payment Account does not exceed the debt service which is payable from that account in that Fiscal Year.

3. Amendments to Section 4.4(H)

- (H) If amounts in the Reserve Account are transferred to the Debt Service Account pursuant to Section 4.4(C), the Trustee shall value the Reserve Credit Facilities, Investment Securities and cash credited to each subaccount of the Reserve Account on the Business Day following the withdrawal. If any subaccount then contains an amount that exceeds its Reserve Requirement the excess shall, to the extent permitted by 4.4(F), immediately be transferred to any subaccount that has a balance that is less than its Reserve Requirement. If, after any such transfer, the balance remaining in any subaccount of the Reserve Account on that Business Day is less than the Reserve Requirement for that subaccount, the Director of the Oregon Department of Administrative Services shall promptly notify the Governor of the State of Oregon that Appropriated Funds are required to allow the Bonds to be timely paid and certify to the Legislative Assembly or, if the Legislative Assembly is not then in session, to the Emergency Board, the amount needed to restore the balance in **each all** subaccounts of the Reserve Account to **the greater of: (a) its Reserve Requirement, or (b) an amount that is at least equal to the amount of the next scheduled withdrawal from the Debt Service Account to pay principal, interest and any premium on the Bonds that are secured by that subaccount**~~their required levels~~, and that the Legislative Assembly or the Emergency Board must provide Appropriated Funds to allow the Bonds to be timely paid. The Director shall provide all Insurers with a copy of the notice and certificate described in the preceding sentence promptly. The Legislative Assembly or the Emergency Board may provide Appropriated Funds in the amount certified by the Director. Any Appropriated Funds so provided shall immediately be transferred to the Trustee and used to restore the balances in the Reserve Account.

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APPENDIX D

PROPOSED FORM OF BOND COUNSEL OPINION

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On the date of issuance of the Bonds, Hawkins Delafield & Wood LLP, Bond Counsel, proposes to issue its approving opinion in substantially the following form:

April 16, 2013

Oregon State Treasury
350 Winter Street N.E., Suite 100
Salem, Oregon 97301

Oregon Department of Administrative Services
155 Cottage St. N.E.
Salem, Oregon 97301

Subject: State of Oregon Department of Administrative Services
\$122,500,000 Oregon State Lottery Revenue Bonds, 2013 Series A (Tax-Exempt)
\$28,140,000 Oregon State Lottery Revenue Bonds, 2013 Series B (Federally Taxable)
\$71,075,000 Oregon State Lottery Revenue Bonds, 2013 Series C (Federally Taxable Refunding)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the authorization and issuance by the State of Oregon (the "State"), acting by and through its State Treasurer and its Department of Administrative Services, of its State of Oregon Department of Administrative Services, Oregon State Lottery Revenue Bonds, 2013 Series A (Tax-Exempt) (the "2013 Series A Bonds"), its State of Oregon Department of Administrative Services, Oregon State Lottery Revenue Bonds, 2013 Series B (Federally Taxable) (the "2013 Series B Bonds"), and its State of Oregon Department of Administrative Services, Oregon State Lottery Revenue Bonds, 2013 Series C (Federally Taxable Refunding) (the "2013 Series C Bonds" and collectively with the 2013 Series A Bonds and the 2013 Series B Bonds, the "2013 Bonds"). The 2013 Bonds are issued pursuant to a Third Restated Master Indenture of Trust dated as of February 8, 2007 (the "Master Indenture"), as amended and supplemented, including by a Twenty-Fifth Supplemental Indenture of Trust dated as of April 16, 2013 (the "Twenty-Fifth Supplemental Indenture" and collectively, with the Master Indenture, the "Indenture"), between the State and Wells Fargo Bank, National Association, as Trustee (the "Trustee"). Capitalized terms not defined herein have the meanings defined for such terms in the Indenture.

We have examined the law and such certified proceedings and other documents as we deem necessary to render this opinion.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material relating to the 2013 Bonds, and we express no opinion relating thereto, excepting only the matters set forth as our opinion in the official statement.

Regarding questions of fact material to our opinion, we have relied on representations of the State in the Indenture and in the certified proceedings and on other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1. The 2013 Bonds have been legally authorized, sold and issued under and pursuant to the Constitution and Statutes of the State of Oregon and the Indenture, and constitute valid and legally binding obligations of the State that are enforceable in accordance with their terms.

2. The 2013 Bonds are special obligations of the State, payable solely from the Unobligated Net Lottery Proceeds of the Oregon State Lottery and the other Pledged Revenues specified in the Indenture, and

from any Appropriated Funds the State may provide. The State has no legal obligation to provide Appropriated Funds.

3. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described below, (i) interest on the 2013 Series A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the 2013 Series A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering our opinion, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the State, and others in connection with the 2013 Series A Bonds, and we have assumed compliance by the State and others with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the 2013 Series A Bonds from gross income under Section 103 of the Code.

The Code establishes certain requirements that must be met subsequent to the issuance and delivery of the 2013 Series A Bonds in order that, for Federal income tax purposes, interest on the 2013 Series A Bonds not be included in gross income pursuant to Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of proceeds of the 2013 Series A Bonds, restrictions on the investment of proceeds of the 2013 Series A Bonds prior to expenditure and the requirement that certain earnings be rebated to the Federal government. Noncompliance with such requirements may cause interest on the 2013 Series A Bonds to become subject to Federal income taxation retroactive to their date of issue, irrespective of the date on which such noncompliance occurs or is ascertained.

On the date of delivery of the 2013 Series A Bonds, the State will execute a Tax Certificate (the "Tax Certificate") containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Certificate, the State covenants that it will comply with the provisions and procedures set forth therein and that it will do and perform all acts and things required by the Code to assure that interest paid on the 2013 Series A Bonds will, for Federal income tax purposes, be excluded from gross income.

In rendering the opinion in paragraph 3 hereof, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Certificate with respect to matters affecting the status of interest paid on the 2013 Series A Bonds, and (ii) compliance by the State with the procedures and covenants set forth in the Tax Certificate as to such tax matters.

4. Interest on the 2013 Series B Bonds and the 2013 Series C Bonds is not excludable from gross income for Federal income tax purposes.

5. Interest on the 2013 Bonds is exempt from Oregon personal income tax.

Except as stated in paragraphs 3, 4 and 5 above, we express no opinion as to any other Federal, state or local tax consequences arising with respect to the 2013 Bonds or the ownership or disposition thereof. We render our opinion under existing statutes and court decisions as of the issue date, and we assume no obligation to update, revise or supplement this opinion after the issue date to reflect any action hereafter taken or not taken, or any facts or circumstances, or any change in law or in interpretations thereof, or otherwise, that may hereafter arise or occur, or for any other reason. Furthermore, we express no opinion herein as to the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel other than ourselves on the exclusion from gross income for Federal income tax purposes of interest on the 2013 Series A Bonds.

The portion of this opinion that is set forth in paragraph 1, above, is qualified only to the extent that enforceability of the 2013 Bonds may be limited by or rendered ineffective by (i) bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting creditors' rights generally; (ii) the application of equitable principles and the exercise of judicial discretion in appropriate cases; (iii) common

law and statutes affecting the enforceability of contractual obligations generally; (iv) principles of public policy concerning, affecting or limiting the enforcement of rights or remedies against governmental entities such as the State.

This opinion is given as of the date hereof and is based on existing law, and we assume no obligation to update, revise, or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to our attention or any changes in law or interpretations thereof that may hereafter arise or occur or for any other reason.

This opinion is limited to matters of Oregon law and applicable Federal law, and we assume no responsibility as to the applicability of laws of other jurisdictions.

This opinion is provided to you as a legal opinion only, and not as a guaranty or warranty of the matters discussed herein. No opinions may be inferred or implied beyond the matters expressly stated herein. No qualification, limitation or exception contained herein shall be construed in any way to limit the scope of the other qualifications, limitations and exceptions. For purposes of this opinion, the terms "law" and "laws" do not include unpublished judicial decisions, and we disclaim the effect of any such decision on this opinion.

We have served as bond counsel only to the State in connection with the 2013 Bonds and have not represented and are not representing any other party in connection with the 2013 Bonds. This opinion is given solely for the benefit of the State in connection with the 2013 Bonds and may not be relied on in any manner or for any purpose by any person or entity other than the State, the owners of the 2013 Bonds, and any person to whom we may send a formal reliance letter indicating that the recipient is entitled to rely on this opinion.

Very truly yours,

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APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

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FORM OF CONTINUING DISCLOSURE CERTIFICATE

State of Oregon
Department of Administrative Services
Oregon State Lottery Revenue Bonds
\$122,500,000 2013 Series A (Tax-Exempt)
\$28,140,000 2013 Series B (Federally Taxable)
\$71,075,000 2013 Series C (Federally Taxable Refunding)

This Continuing Disclosure Certificate (the “Certificate”) is executed and delivered by the State of Oregon, acting by and through its State Treasurer (the “State”), and its Department of Administrative Services (the “Department”) (collectively, the “Issuer”) in connection with the issuance of the State of Oregon Department of Administrative Services, Oregon State Lottery Revenue Bonds, 2013 Series A, the State of Oregon Department of Administrative Services, Oregon State Lottery Revenue Bonds, 2013 Series B, and the State of Oregon Department of Administrative Services, Oregon State Lottery Revenue Bonds, 2013 Series C (collectively, the “Securities”). The Securities are being issued pursuant to a Third Restated Master Indenture of Trust dated as of February 8, 2007 (the “Master Indenture”), as amended and supplemented, including by a Twenty-Fifth Supplemental Indenture of Trust dated as of April 16, 2013 (the “Twenty-Fifth Supplemental Indenture”). The Twenty-Fifth Supplemental Indenture and the Master Indenture are executed by and between the State and Wells Fargo Bank, National Association, as Trustee (the “Trustee”) and are collectively referred to herein as the “Indenture.” The State covenants as follows:

Section 1. Purpose of Certificate. This Certificate is being executed and delivered by the State for the benefit of registered and beneficial holders of the Securities and to assist the underwriters of the Securities in complying with paragraph (b)(5) of Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. § 240.15c2-12) (the “Rule”).

Section 2. Annual Financial Information. The State, as the “obligated person” for purposes of the Rule, hereby agrees to provide or cause to be provided at least annually to the Municipal Securities Rulemaking Board (the “MSRB”), the financial information regarding the State of the type set forth (i) in Tables 11 through 16, 18 through 21, and 24 through 27 of Appendix A “General Information Relating to the State of Oregon” of the official statement dated April 3, 2013 (the “Official Statement”), (ii) the audited Basic Financial Statements of the Oregon State Lottery for the Fiscal Year Ended June 30, 2012 (which are presented in Appendix B of the Official Statement in audited form for the Fiscal Year Ending June 30, 2012).

The annual financial information described above will be available no later than nine months after the end of the preceding fiscal year, beginning with the State’s fiscal year ending June 30, 2013. Such information will include audited financial statements prepared in accordance with generally accepted accounting principles as established by the Government Accounting Standards Board as in effect from time to time; provided, however, that if audited financial statements are not available within nine months after the end of the preceding fiscal year, unaudited financial statements will be provided with audited financial statements to follow when available.

Certain items of annual financial information may be provided by way of cross-reference to other documents previously provided to the MSRB.

Section 3. Material Events. The State agrees to provide or cause to be provided to the MSRB in a timely manner not in excess of ten business days after the occurrence of the event, notice of any of the following events with respect to the Securities:

- (a) Principal and interest payment delinquencies;
- (b) Non-payment related defaults, if material;
- (c) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) Substitution of credit or liquidity providers or their failure to perform;
- (f) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the Security;
- (g) Modifications to the rights of Security holders, if material;
- (h) Bond calls, if material, and tender offers;
- (i) Defeasances;
- (j) Release, substitution or sale of property securing repayment of the Securities, if material;
- (k) Rating changes;
- (l) Bankruptcy, insolvency, receivership or similar event of the obligated person; (Note: For the purposes of the event identified in this paragraph l, the event is considered to occur when any of the following occur: The appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.);
- (m) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person,

other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;

(n) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

The State may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, if, in the judgment of the State, such other event is material with respect to the Securities, but the State does not undertake any commitment to provide such notice of any event except those events listed above.

Section 4. Failure to File Annual Financial Information. The State agrees to provide or cause to be provided, in a timely manner, to the MSRB, notice of a failure by the State to provide the annual financial information described in Section 2 above on or prior to the time set forth in Section 2.

Section 5. Dissemination Agent. The State may, from time to time, engage or appoint an agent to assist the State in disseminating information hereunder (the “Dissemination Agent”). The State may discharge any Dissemination Agent with or without appointing a successor Dissemination Agent.

Section 6. Termination of Obligations. Pursuant to paragraph (b)(5)(iii) of the Rule, the State’s obligation to provide annual financial information and notice of material events, as set forth above, shall terminate if and when the State no longer remains an obligated person with respect to the Securities or upon either the prepayment in full of the Securities or the legal defeasance of the Securities. In addition, and notwithstanding the provisions of Section 8 below, the State may rescind its obligations under this Certificate, in whole or in part, if (i) the State obtains an opinion of nationally recognized bond counsel that those portions of the Rule that required the execution and delivery of this Certificate are invalid, have been repealed, or otherwise do not apply to the Securities, and (ii) the State notifies and provides the MSRB a copy of such legal opinion.

Section 7. Enforceability and Remedies. The State agrees that this Certificate is intended to be for the benefit of registered and beneficial holders of the Securities and shall be enforceable by or on behalf of any such holder; provided that, the right of any certificate holder to challenge the adequacy of the information furnished hereunder shall be limited to an action by or on behalf of holders representing at least twenty-five percent (25%) of the aggregate outstanding principal amount represented by the Securities. Any failure by the State to comply with the provisions of this undertaking shall not be an event of default under the Indenture or the Securities. This Certificate confers no right, on any person or entity other than the State, holders of the Securities, and any Dissemination Agent.

Section 8. Amendment. The State may amend this Certificate without the consent of holders of the Securities under the following conditions:

(a) The amendment may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the obligated person or type of business conducted;

(b) This Certificate, as amended, would have complied with the requirements of the Rule at the time of the original issuance of the Securities, after taking into account

any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment does not materially impair the interest of holders of the Securities, as determined either by parties unaffiliated with the State (such as nationally recognized bond counsel), or by approving vote of holders representing at least sixty percent (60%) of the aggregate outstanding principal amount represented by the Securities, as applicable.

The State shall provide to the MSRB notice of any amendment that changes the accounting principles followed by the State in preparation of its annual financial information. The initial annual financial information after the amendment shall explain, in narrative form, the reasons for the amendment and the effect of the change in the type of operating data or financial information being provided.

Section 9. Form of Information. All information required to be provided under this certificate will be provided in an electronic format as prescribed by the MSRB and with the identifying information prescribed by the MSRB.

Section 10. Submitting Information Through EMMA. So long as the MSRB continues to approve the use of the Electronic Municipal Market Access (“EMMA”) continuing disclosure service, any information required to be provided to the MSRB under this Certificate may be provided through EMMA. As of the date of this Certificate, the web portal for EMMA is emma.msrb.org.

Section 11. Choice of Law. This Certificate shall be governed by and construed in accordance with the laws of the State of Oregon without regard to principles of conflicts of laws, provided that to the extent this Certificate addresses matters of federal securities laws, including the Rule, this Certificate shall be construed in accordance with such federal securities laws and official interpretations thereof.

Section 12. Counterparts. This Certificate may be executed in several counterparts, each of which shall be an original and all of which shall constitute one instrument.

Dated as of the 16th day of April 2013.

State of Oregon

Laura Lockwood-McCall, Director, Debt Management
Division, Office of the State Treasurer

Oregon Department of Administrative Services

Michael Jordan, Director

APPENDIX F

DESCRIPTION OF DTC AND ITS BOOK-ENTRY SYSTEM

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the 2013 Bonds. The 2013 Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered certificate will be issued for each series of the 2013 Bonds, each in the aggregate principal amount of such series, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of 2013 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2013 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2013 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2013 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2013 Bonds, except in the event that use of the book-entry system for the 2013 Bonds is discontinued.

To facilitate subsequent transfers, all 2013 Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2013 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2013 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such 2013 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2013 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2013 Bonds, such as prepayments, tenders, defaults, and proposed amendments to the security documents relating to the 2013 Bonds. For example, Beneficial Owners of 2013 Bonds may wish to ascertain that the nominee holding the 2013 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Certificate Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2013 Tax-Exempt Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed. If less than all of the 2013 Taxable Bonds of a maturity are called for prior redemption, the particular 2013 Taxable Bonds or portions thereof to be redeemed shall be selected on a "Pro Rata Pass-Through Distribution of Principal" basis in accordance with DTC procedures, provided that, so long as the 2013 Taxable Bonds are held in book-entry form, the selection for redemption of such 2013 Taxable Bonds shall be made in accordance with the operational arrangements of DTC then in effect that currently provide for adjustment of the principal by a factor provided by the Trustee pursuant to DTC operational arrangements. If the Trustee does not provide the necessary information and identify the redemption as on a Pro Rata Pass-Through Distribution of Principal basis, the 2013 Taxable Bonds will be selected for redemption in accordance with DTC procedures by lot.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2013 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2013 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments represented by the 2013 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State or the Fiscal Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Fiscal Agent, or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2013 Bonds at any time by giving reasonable notice to the State or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, certificates are required to be printed and delivered.

To the extent permitted by law, the State may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered to DTC.

THE ABOVE INFORMATION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE STATE BELIEVES TO BE RELIABLE, BUT THE STATE TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF. NEITHER THE STATE NOR THE FISCAL AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES OR BENEFICIAL OWNERS WITH RESPECT TO DTC'S RECORD KEEPING, PAYMENTS BY DTC OR PARTICIPANTS, NOTICES TO BE DELIVERED BY DTC, OR ANY OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER OF THE 2013 BONDS.

So long as Cede & Co. is the registered owner of the 2013 Bonds, as nominee for DTC, references herein to the holders or registered owners of the 2013 Bonds (other than under the caption "TAX MATTERS") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the 2013 Bonds. When reference is made to any action, which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given the State or the Fiscal Agent shall send them to DTC only.

For every transfer and exchange of the 2013 Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

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