Research Update:

West Linn, OR Series 2026 Full Faith And Credit Obligations Assigned 'AA+' Rating

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Overview

- S&P Global Ratings assigned its 'AA+' long-term rating to **West Linn**, Oregon's estimated $44 million series 2026 full faith and credit obligations.
- At the same time, S&P Global Ratings affirmed its 'AA+' long-term rating on the city's general obligations and full faith and credit obligations outstanding.
- The outlook is stable.

Rationale

Security

Both the city's GO bonds and full faith and credit obligations are payable from the city's general, nonrestricted revenue and other lawfully available funds, including revenue from the city's operating ad valorem tax. The GO bonds outstanding are secured by a dedicated property tax for debt service and are not subject to constitutional or statutory property tax limitations. We rate the full faith and credit obligations on par with our view of the city's general creditworthiness given the fungibility of the city's resources and because pledged revenue is not measurably narrower or subject to disproportionate risks relative to the obligor's overall revenue.

Proceeds from the series 2026 full faith and credits obligations are being used to finance the costs related to the development, construction, and equipping of a centralized Operations Center and related improvements. The new operations center will serve as a hub for all the city’s utilities and parks and facilities maintenance services.

We note that the city plans to use revenue from five departments expected to be housed in the new operations centers (streets, sewer, stormwater, water, and parks) to pay for its series 2026 obligations. The street fund is expected to be responsible for 30.0% of the annual financing payments, while the other departments are each responsible for 17.5%. The park fund is now a component of the general fund, but the other revenue is accounted for outside of the general fund. The city’s council recently approved an increase in the parks maintenance for fee on utility bills to help cover the parks component of the financing agreement. However, such amounts are not pledged as a security for the obligations and are not guaranteed to be available.

Credit highlights

The 'AA+' rating reflects our view of West Linn's large and diversified economic base, robust financial management practices, and stable financial performance. Partly offsetting these credit strengths, in our view, are its elevated debt burden and the expectation that the city plans to spend down $8 million of its fund balance to help fund the project related to the issuance of its series 2026 obligation.

For accounting purposes, the city separates functions that we have found are typically combined in the general fund among other cities in the state and has, through formal resolution, continued this approach under Government Accounting Standard Board (GASB) Statement No. 54 guidelines. Accordingly, we have applied our criteria applicable to general fund ratios for the combined operations of the following funds: general, parks, library, and public safety. In cases where we view the city as having sufficient legal and political flexibility to transfer reserves classified as "committed" under GASB guidelines to other funds, we have included such reserves in our calculation of available balances. The funds we have considered analogous to a general fund on a combined basis include general, parks, library, and public safety. We note as of fiscal year-end 2025, the city closed its parks and recreation, public safety, library, and planning funds, and transferred remaining fund balances to the general fund.

The city has finished two of the past three audited fiscal years with positive operating results. The deficit in fiscal 2025 was due primarily to increases in public safety and parks and recreation expenditures. The city has adopted a biennial budget that reflects balanced operation results for fiscal years 2026 and fiscal 2027, but has a history of outperforming its adopted budget as a result of conservative budgeting assumptions and practices. Although the city plans to spend down a portion of its available fund balance tied to building its new operational center, officials have no additional plans to utilize available reserve and are committed to keeping reserves above the level of its formal reserve policy, which requires maintaining available reserves of 15% of expenditures in its general fund.

Our view of the city's credit quality over the two-year horizon reflects our expectation that financial performance will hold while reserves and liquidity will decline to about $12.5 million, or nearly 35% of general fund revenue, based on fiscal 2025 audited revenue.

The rating reflects our view of West Linn's:

- Position as a mostly built-out, affluent suburb of Portland, Oregon, located along the Willamette River. Many residents work in the surrounding metropolitan statistical area, reflecting economic output metrics that are below those of national peers, but economic output metrics, household, and per capita metrics are above those of state and national peers.
- Stable financial performance and healthy operating reserves despite plans to spend down its available reserve position. We expect financial performance to moderate but remain positive in the medium term as a result of conservative budgeting practices and continued growth in core revenue streams. Projections for the current budget (fiscal 2026) show another potential general fund balance increase, to $17.2 million in total reserves, which would yield a positive operating result. We expect the city's available fund balance to decline to $12.5 million in fiscal 2027, based on our discussions with the management team, as the city utilizes some fund balance toward building its new operations center.
- Comprehensive financial practices, including a robust budget development process, budget monitoring, (such as quarterly budget-to-actual reports provided to the council), long-term financial and capital planning and risk mitigation efforts, and formalized policies for investments, debt, and reserve. However, the formal debt policy is not robust and focuses

mainly on state statute. The issuer's cyber risk mitigation measures align with our view of its overall risk management policies and practices.

- Elevated but manageable debt burden and a relatively affordable pension and other postemployment benefits burden. The city has no additional debt plans within the next two fiscal years.
- Institutional framework that incorporates the city’s history of producing annual generally-accepted-accounting-principles-based audits, statutory limitations on revenue raising, and a relatively predictable operating environment without a history of voter initiative activity or frequent state-level changes that materially affect local government revenue-raising opportunities or expenditure requirements. For more information on our institutional framework assessment for Oregon municipalities, see: "Institutional Framework Assessment: Oregon Local Governments," Sept. 11, 2024.

Environmental, social, and governance

The city is exposed to acute physical risks in the form of potential seismic activity, drought, flooding, and wildfires; we view these events as introducing risk to property values and operating revenue by extension. We consider social and governance factors neutral in our credit analysis.

Outlook

The stable outlook reflects our expectation that the tax base will continue to expand. In addition, the outlook reflects our expectation that operations will remain structurally balanced and that available reserves will remain robust. Therefore, we do not expect to change the rating within the two-year outlook horizon.

Downside scenario

We could lower the rating if a slowdown in revenue growth and/or an acceleration of operating costs led us to believe the city had entered a period of structural imbalance or if the city used a larger -than-expected portion of its available general fund position to finance current or upcoming capital projects. In addition, we could lower the rating if its debt burden materially weakens.

Upside scenario

We could raise the rating in the unlikely event that financial performance remained robust rather than moderated, especially if we thought its available reserve position were likely to increase and be maintained at levels comparable to those of higher-rated peers instead of decrease as management expects.

West Linn, Oregon--credit summary

Institutional framework (IF)	2
Individual credit profile (ICP)	1.63
Economy	1.0
Financial performance	2
Reserves and liquidity	1
Management	1.65
Debt and liabilities	2.50

West Linn, Oregon--key credit metrics

	Most recent	2025	2024	2023
Economy				
Real GCP per capita as % of U.S.	83	--	83	82
County PCPI as % of U.S.	115	--	115	115
Market value ($000s)	8,160,179	7,952,999	7,743,395	7,400,275
Market value per capita ($)	298,078	290,510	282,853	269,650
Top 10 taxpayers as % of taxable value	5.8	5.7	5.4	5.5
County unemployment rate (%)	4.4	4.4	3.9	3.4
Local median household EBI as % of U.S.	156	--	156	159
Local per capita EBI as % of U.S.	149	--	149	147
Local population	27,376	--	27,376	27,444
Financial performance				
Operating fund revenue ($000s)	--	35,969	27,458	29,802
Operating fund expenditures ($000s)	--	36,493	26,900	26,893
Net transfers and other adjustments ($000s)	--	440	272	290
Operating result ($000s)	--	(84)	830	3,199
Operating result as % of revenue	--	(0.2)	3.0	10.7
Operating result three-year average %	--	4.5	10.0	9.7
Reserves and liquidity				
Available reserves as % of operating revenue	--	41.0	32.2	30.3
Available reserves ($000s)	--	14,736	8,844	9,033
Debt and liabilities				
Debt service cost as % of revenue	--	5.3	6.2	5.1
Net direct debt per capita ($)	2,916	1,306	1,366	1,413
Net direct debt ($000s)	79,837	35,742	37,382	38,792
Direct debt 10-year amortization (%)	42	64	59	--
Pension and OPEB cost as % of revenue	--	5	6	5
NPLs per capita ($)	--	685	685	645
Combined NPLs ($000s)	--	18,740	18,740	17,700

Financial data may reflect analytical adjustments and is sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. EBI--Effective buying income. GCP--Gross county product. NPL--Net pension liability. OPEB--Other postemployment benefits. PCPI--Per capita personal income.

Ratings List	
New Issue Ratings	
US$44,095,000 City Of West Linn, Oregon, Full Faith And Credit Obligation, Series 2026, dated: Date of Delivery, due: June 1, 2051	
Long Term Rating	AA+/Stable
Ratings Affirmed	
Local Government	
West Linn, OR Limited Tax General Operating Pledge	AA+/Stable

Ratings List	
West Linn, OR Unlimited Tax General Obligation	AA+/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.