August 6, 2010

Mr. Richard Seals  
Finance Director  
City of West Linn  
22500 Salamo Road  
West Linn, OR 97068

Dear Mr. Seals:

We wish to inform you that on August 4, 2010, Moody’s Investors Service assigned a rating of Aa2 to the City of West Linn, Oregon’s General Obligation Refunding Bonds, Series 2010. Moody’s also reviewed and assigned a rating of Aa3 to the city’s Full Faith and Credit Refunding Obligations, Series 2010.

In order for us to maintain the currency of our ratings, we request that you provide ongoing disclosure of current financial and statistical information.

Moody’s will monitor this rating and reserves the right, at its sole discretion, to revise or withdraw this rating at any time in the future.

The rating, as well as any revisions or withdrawals thereof, will be publicly disseminated by Moody’s through normal print and electronic media and in response to verbal requests to Moody’s Rating Desk.

Should you have any questions regarding the above, please do not hesitate to contact me or the analyst assigned to this transaction, Patrick Liberatore at 415-274-1709.

Sincerely,

Kenneth B. Kurtz  
Senior Vice President

cc:  Mr. Javier Fernandez  
D.A. Davidson & Company, Inc.  
Two Centerpoint Drive  
Suite 400  
Lake Oswego, OR 97035
New Issue: MOODY’S ASSIGN Aa2 RATING TO CITY OF WEST LINN, OR, GENERAL OBLIGATION REFUNDING BONDS, SERIES 2010 AND Aa3 RATING TO FULL FAITH AND CREDIT REFUNDING OBLIGATIONS, SERIES 2010

Global Credit Research - 06 Aug 2010

$14.6 MILLION OF DEBT AFFECTED, POST-REFUNDING

Municipality
OR

Moody’s Rating

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<td>General Obligation Refunding Bonds, Series 2010</td>
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<tr>
<td>Sale Amount</td>
<td>$3,165,000</td>
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<td>Expected Sale Date</td>
<td>08/18/10</td>
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<td>Rating Description</td>
<td>Unlimited Tax General Obligation Bonds</td>
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| Full Faith and Credit Refunding Obligations, Series 2010 | Aa3 |
| Sale Amount | $2,780,000 |
| Expected Sale Date | 08/18/10 |
| Rating Description | Limited Tax General Obligation Bonds |

Opinion

NEW YORK, Aug 6, 2010 -- Moody's Investors Service has assigned a Aa2 rating to the City of West Linn, Oregon, General Obligation Refunding Bonds, Series 2010 in the approximate amount of $3.2 million and are secured by the city's full faith, credit, and unlimited property tax pledge; Moody's also has assigned a Aa3 rating to the Full Faith and Credit Refunding Obligations, Series 2010 in the approximate amount of $2.8 million and are secured by the city's full faith and credit pledge of non-restricted general revenues and other available funds. At this time, Moody's also affirms the rating on the city's outstanding parity debt. The bonds' proceeds will refund certain maturities of the city's outstanding General Obligation Bonds, Series 2000 and Full Faith and Credit Obligations, 2000. The rating assignments primarily reflect the city's improved managerial oversight and stronger financial position, affluent tax base, and manageable debt profile.

AFFLUENT BEDROOM COMMUNITY PROXIMATE TO PORTLAND

The city is an affluent bedroom community located in Clackamas County (Aa1 Issuer rating) and is approximately 14 miles southeast of the City of Portland (Aaa UTGO rating with stable outlook). As of the 2000 census, the city's per capita and median family incomes represented 165.6% and 171.0% of state levels, respectively. In years 2004 through 2009, the city's tax base grew at an average annual rate of 11.2% to a real market valuation of $4.5 billion. However, real market value declined 12.1% to $4.0 billion in 2010 amid strained economic conditions.

For 2011, official tax base projections are unavailable but management noted that the local economy appears to be stabilizing. Property tax revenues should grow going forward as assessed valuation is expected to appreciate by a minimum 3.0% annually in accordance with the state's Measure 50 provisions, as long as assessed values remain below real market values. The city's assessed value as a share of real market value was 69.9% as of 2010, which provides a margin for continued assessed valuation growth despite any near-term declines in real market valuation.

STRONGER MANAGERIAL OVERSIGHT AND IMPROVED FINANCIAL PERFORMANCE

The city's financial position has improved in recent years following a period of unusual weakness. General fund reserves had declined as low as 4.5% of general fund revenues ($439,000) in fiscal 2005 due to the city's former finance director embezzling approximately $1.4 million of city funds over a period of several years. The crime was discovered in fiscal 2006 and the city implemented several positive changes, including: replacement of management, addition of a staff accountant for more oversight, and a broad overhaul of financial procedures. So far, the city has recovered over $800,000 of the stolen funds from insurance proceeds and the seizure of assets from the former finance director. Officials expect that additional funds should be recovered in the near-term.

Beginning in fiscal 2007, the city altered its financial reporting structure from relying on the general fund as its primary fund to having several operating funds segregated by function (general, debt service, library, parks, planning, and public safety funds). Each of these primary operating funds has a policy of maintaining reserves of 15.0% to 20.0% of expenditures. In fiscal years 2007 through 2009, the city's combined operating funds balance averaged a healthy 30.0% of revenues. The city implemented a biennial budget process beginning in fiscal 2010, and management reported that expenditures are currently below expectations while revenues are in-line with budgeted expectations.

The city continues to benefit from its permanent property tax levy at a fixed rate of $2.12/$1,000 of assessed value, which generated $5.5 million of property tax revenues in fiscal 2009. However, the city's local option property tax levy expired in 2007. The levy provided up to $1.8 million of revenues that were used primarily to fund public safety operations. The city did not return to voters for renewal of the levy; instead, various fees and service charges were increased in order to replace the lost levy revenues.

Moody's notes that the city's independent auditor declined to offer an opinion for the fiscal 2005 financial statements in the wake of the misappropriation of funds perpetrated by the city's former finance director. In fiscal 2006 and 2007, the auditor offered a qualified opinion for the city's financial statements. Since fiscal 2008, the city has received an unqualified opinion for its annual financial statements.
MANAGEABLE DEBT PROFILE

Moody's expects that the city's debt profile will remain manageable given a low direct debt burden of 0.4% and rapid payout of principal at 80.0% in ten years. Of note, the city's voters rejected a $10.0 million general obligation bond measure in May 2010 to fund a new police facility. Management still plans to buy the land for the facility and return to voters again in the near-term for an $8.0 million general obligation bond measure to finance the construction of the facility.

KEY STATISTICS

Estimated population: 24,400
2010 full value: $4.0 billion
Average annual growth in full value (2005-2010): 6.5%
2010 full value per capita: $162,322
1999 per capita income: $34,671 (165.6% of state)
1999 median family income: $83,252 (171.0% of state)
Direct debt burden: 0.4%
Overall debt burden: 3.8%
Payout of principal (10 years): 80.0%
Fiscal 2009 total general fund balance: $985,000 (16.1% of general fund revenues)
Fiscal 2009 total primary operating funds balance: $4.1 million (29.3% of primary operating funds revenues)
Other postemployment benefits (OPEB) liability, 2008: $1.4 million

The principal methodology used in assigning the rating was "General Obligation Bonds Issued by U.S. Local Governments", published in October 2009, which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating this issue can also be found in the Credit Policy & Methodologies directory.

The last rating action with respect to the City of West Linn, Oregon was on June 6, 2006, when the municipal scale rating on the city's outstanding unlimited tax general obligation bonds was downgraded to A1 from Aa3 and the rating removed from Moody's Watchlist. That rating was subsequently recalibrated to a global scale rating of Aa2 on May 1, 2010.

Analysts

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