

# RatingsDirect®

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## Summary:

# West Linn, Oregon; General Obligation

### Primary Credit Analyst:

Jennifer Hansen, San Francisco (1) 415-371-5035; jen.hansen@spglobal.com

### Secondary Contact:

Brian Phuvan, San Francisco (1) 415-371-5094; brian.phuvan@spglobal.com

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## Summary:

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Credit Profile		
US\$20 mil GO bonds ser 2018 due 06/01/2038		
Long Term Rating	AA+/Stable	New
West Linn GO		
Long Term Rating	AA+/Stable	Affirmed

## Rationale

S&P Global Ratings assigned its 'AA+' rating to West Linn, Ore.'s 2018 general obligation (GO) bonds. At the same time, S&P Global Ratings affirmed its 'AA+' long term rating on the city's outstanding GO and full faith and credit obligations. The outlook is stable.

The GO bonds are secured by the city's full faith and credit taxing powers, including its covenant to levy a direct ad valorem tax on all taxable property within its borders without limitation as to rate or amount.

The bonds are secured by and payable from the city's general nonrestricted revenues. Constitutional restrictions on revenue growth limit the property tax pledge of the city's full faith and credit bonds. We rate the full faith and credit obligation on par with the GO bonds as the city maintains fungibility of resources and the full faith and credit obligations are secured by a tax of the entire city.

We understand the 2018 bonds are being issued to finance capital costs related to improvements to roads, parks, and city facilities as authorized by a vote of the electors of the city on May 15, 2018.

The 'AA+' rating reflects our opinion of the following factors for the city:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with an operating surplus in the general fund but a slight operating deficit at the total governmental fund level in fiscal 2017;
- Strong budgetary flexibility, with an available fund balance in fiscal 2017 of 13.1% of operating expenditures;
- Very strong liquidity, with total government available cash at 30.3% of total governmental fund expenditures and 4.7x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability profile, with debt service carrying charges at 6.5% of expenditures and net direct debt that is 105.4% of total governmental fund revenue; and
- Strong institutional framework score.

### **Very strong economy**

We consider West Linn's economy very strong. The city, with an estimated population of 27,795, is located in Clackamas County in the Portland-Vancouver-Hillsboro, Ore.-Wash., MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 142% of the national level and per capita market value of \$182,528. Overall, the city's market value grew by 8.1% over the past year to \$5.1 billion in 2018. The county unemployment rate was 3.7% in 2017.

The city of West Linn is located west of the Willamette River, approximately 14 miles south of Portland. The community is primarily residential with a low ratio of heavy industry and retail-based commercial activity. We consider the city's tax base very diverse, with the top 10 taxpayers accounting for only 5.9% of assessed value. The city has grown rapidly over the last several years due to its proximity to the Portland and Beaverton economies.

### **Strong management**

We view the city's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or regularly monitor all of them.

Key management policies and practices include the city's:

- Budget assumptions that are based on a five-year financial forecast and trend analysis;
- Quarterly budget-to-actual reports to city council;
- Formal six-year capital improvement plan that is updated biennially;
- Formal investment management policy, with annual reporting to city council and monthly reporting to management;
- Adoption of a basic debt management policy; and
- Formal policy of maintaining a minimum contingency reserve of 15% in each fund as a cushion against unexpected items. This policy is new and some of the funds are currently not meeting the policy, but management reports, and we expect, that they will meet this policy by the 2019-2020 biennium.

### **Strong budgetary performance**

West Linn's budgetary performance is strong in our opinion. The city had surplus operating results in the general fund of 6.7% of expenditures, but a slight deficit result across all governmental funds of 0.7% in fiscal 2017. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2017 results in the near term.

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 via 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 has sufficient legal and political flexibility to transfer reserves classified as "committed" under GASB guidelines to other funds, we have included them in our calculation of available balances. The funds we have considered as analogous to a general fund on a combined basis include general, parks, library, and public safety.

After adjusting for a \$2 million one-time capital expenditure for the city's parks and recreation fund, the city posted a very large, 6.8% surplus. Based on the city's fiscal 2018 and 2019 biennium budget, we expect that the city will have small (less than 1%) draws on reserves, but that its surpluses won't remain very large.

### **Strong budgetary flexibility**

West Linn's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2017 of 13.1% of operating expenditures, or \$2.8 million.

The available fund balance decreased in fiscal 2017 to 13.1% or \$2.8 million from 15.8% or \$3.8 million in fiscal 2016. The decrease is primarily due to one-time capital expenditures for its parks and recreation fund, which we include in the general fund. The city is limited by an operating tax rate cap, which it is currently levying at the full amount. We do not expect that reserves will fall below a strong level, despite budgeted draws on reserves. The city recently implemented a reserve policy of 15% of expenditures in each of its funds. It projects that the next biennium budget will reflect the updated policy.

### **Very strong liquidity**

In our opinion, West Linn's liquidity is very strong, with total government available cash at 30.3% of total governmental fund expenditures and 4.7x governmental debt service in 2017. In our view, the city has strong access to external liquidity if necessary.

In our opinion, the city's liquidity is reinforced by its strong access to external liquidity, as it has been a regular market participant with multiple bond issuances over the past 20 years. We do not expect that the city will significantly reduce liquidity below very strong levels despite the city's projection of modest deficits in the next two years. Additionally, the city does not have any direct purchase or private placement debt that could cause a liquidity issue.

### **Adequate debt and contingent liability profile**

In our view, West Linn's debt and contingent liability profile is adequate. Total governmental fund debt service is 6.5% of total governmental fund expenditures, and net direct debt is 105.4% of total governmental fund revenue.

The city is not exposed to any variable-rate debt or privately placed debt that could result in undue contingent liabilities through acceleration events or interest rate risk. Management reports the city has no plans to issue additional debt over the next two years.

West Linn's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 3.6% of total governmental fund expenditures in 2017. The city made its full annual required pension contribution in 2017.

The city participates in the Oregon Public Employees Retirement System, and contributed \$1.1 million in 2017. This represents its full annual required contribution. In addition, the city funds its OPEBs on a pay-as-you-go basis. While we expect that pension costs will increase in the future, we expect that the city will be able to incorporate any increases in its budgets.

### **Strong institutional framework**

The institutional framework score for Oregon municipalities is strong.

## Outlook

The stable outlook reflects our opinion of West Linn's very strong underlying economy with access to the broader Portland economy. It also takes into account our expectation that the city will maintain at least strong reserves.

### Upside scenario

We could raise the rating if the city sustained consistent operating surpluses and maintained reserves at very strong levels, particularly if the income and wealth indicators improved.

### Downside scenario

Should the city post deficits in excess of forecast numbers, resulting in significant declines in reserves or continuous operational imbalance, we could lower the rating.

## Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2017 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of August 9, 2018)			
West Linn Full Faith and Crdit oblig ser 2009B dtd 01/21/2009 due 06/01/2008 2010-2018 2022 2024 2026 2029			
Long Term Rating	AA+/Stable	Affirmed	
West Linn GO			
Long Term Rating	AA+/Stable	Affirmed	

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