Summary:
West Linn, Oregon; General Obligation

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Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating to West Linn, Ore.'s series 2012 general obligation (GO) bonds. At the same time, Standard & Poor's affirmed its 'AA' long-term rating on the city's outstanding GO bonds and full faith and credit obligations. The outlook is stable.

Credit strengths include our opinion of the city's:

- Service area that is well-integrated with the large, diverse Portland, Ore. regional economy;
- Very strong-to-extremely strong wealth and income indicators;
- Maintenance of very strong available balances, which we expect will continue; and
- Good financial policies and practices.

The GO bonds are a full faith and credit obligation of the city, including the obligation to levy property taxes without limitation as to rate or amount. Constitutional restrictions on revenue growth limit the property tax pledge of the city's full faith and credit bonds.

Officials plan to use the proceeds from the series 2012 bonds to finance the costs of property acquisition and capital construction for a new police station.

Located 12 miles south of downtown Portland, the city of West Linn serves 24,180 residents in a 7.5-square-mile, primarily residential area. The city's assessed value (AV) reflects a growing trend, and increased by 3.8% on average during fiscal years 2009-2012 to $3 billion. However, due to the overall recession in the housing market, market value of the city has declined at an annual average rate of 8.1% between fiscals 2009-2012 to $3.5 billion, or what we consider an extremely strong $137,659 per capita. The city city's median household effective buying income is very strong, in our view, at 159% of the national level. The preliminary Oct. 2011 unemployment rate for the city was 6.3%, lower than the state's rate of 8.9% and nation's rate of 8.5%.

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, planning, 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, planning, and public safety.

In our opinion, the city's financial position is strong, but has declined relative to expenditures in recent years, due, in part, to baseline cost increases that the city has only partially alleviated with new revenues streams following the sunset of a local option levy. During the past five fiscal years through fiscal 2011, the city's combined available balances were generally stable in absolute terms -- most recently $2.5 million -- but declined in relative terms to what we consider a strong 12.4% of expenditures (excluding expenditures associated with a bond refunding), from a peak of 22.9% of expenditures at the end of fiscal 2007. Since fiscal 2007, the last year of a local option property tax levy, the city implemented a parks maintenance fee, which represents about 9% of combined revenues, and starting in fiscal 2010, the city began receiving a portion of a county-wide local option levy dedicated to library services. These library revenues, which sunset in fiscal 2014 if voters do not renew the levy, represent 7% of combined revenues. Management has stated by accounting for major public services separately -- the city has traditionally allocated a set share of unrestricted property tax revenues to its major operating funds -- the city is best able adjust its operations to maintain structural balance. Management has stated that the city is tracking close to its fiscal 2012 budget, which, if implemented, we calculate would result in an ending balance of about 13% of expenditures.

We consider the city’s management practices "good" under our Financial Management Assessment (FMA) methodology. An FMA of "good" indicates our view that financial practices exist in most areas, but that governance officials might not formalize or regularly monitor all of them. Notable among management's practices are the city's use of a five-year financial forecast to build budgets and its quarterly reports on budgeted numbers compared to actual performance to the city council.

Combined direct and overlapping debt supported by city taxpayers is 4.1% of market value, which we consider moderate, and $5,647 per capita, which we consider high. Pro forma debt service carrying charges are 9.4% of government-wide noncapital expenditures, which we consider moderate. Management reports that the city has no immediate plans to issue additional debt.

The city participates in the Oregon Public Employees Retirement System contributed $869,000 in fiscal 2011. This represents its full annual required contribution (ARC) and 4.3% of general fund expenditures. In addition, the city funds its other postemployment benefits (OPEB) on a pay-as-you-go basis and spent $115,000 in fiscal 2011, which was 50% of the ARC necessary to amortize the liability over 15 years. As of May 2010, the city has an unfunded actuarial accrued OPEB liability of $1.5 million.

**Outlook**

The stable outlook reflects our expectation that the city will continue to maintain strong reserves, supported by its affluent household base and its participation in the Portland, Ore. regional economy. We do not expect to raise the rating in our two-year outlook horizon due to the city's limited revenue flexibility; however a sustained decline that reduces currently strong reserves that we believe reflect difficulty in managing operations could lead us to lower the rating.
Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.