STANDARD & POOR'S

Global Credit Portal®
RatingsDirect®

January 6, 2012

Summary:
West Linn, Oregon; General Obligation

Primary Credit Analyst:
Santos Souffront, New York (1) 212-438-2197; santos_souffront@standardandpoors.com

Secondary Contact:
Chris Morgan, San Francisco (1) 415-371-5032; chris_morgan@standardandpoors.com

Table Of Contents

Summary:

West Linn, Oregon; General Obligation

Credit Profile		
US$8.5 mil go bnds due 12/01/2031		
Long Term Rating	AA/Stable	New
West Linn GO		
Long Term Rating	AA/Stable	Affirmed
West Linn Full Faith and Crdit oblig ser 2009B		
Long Term Rating	AA/Stable	Affirmed

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.

928074 | 301777060

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.

Copyright © 2012 by Standard & Poors Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

The McGraw·Hill Companies