

ISSUER COMMENT

24 August 2018

RATING

General Obligation (or GO Related) ¹

Aa2 No Outlook

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City of West Linn, OR

Annual Comment on West Linn

Issuer Profile

The City of West Linn is located in Clackamas County in northwestern Oregon, and is part of the greater Portland metro area. The county has a population of 394,967 and a moderate population density of 211 people per square mile. The county's median family income is \$83,308 (1st quartile) and the May 2018 unemployment rate was 3.2% (2nd quartile) ². The largest industry sectors that drive the local economy are retail trade, health services, and manufacturing.

Credit Overview

West Linn's credit position is very strong. Its Aa2 rating slightly exceeds the median rating of Aa3 for US cities. The notable credit factors include a very strong wealth and income profile, a sizeable tax base and a light debt burden. It also reflects a mid-ranged pension liability and a satisfactory financial position.

Economy and Tax Base: Overall, the economy and tax base of West Linn are very healthy and are slightly favorable relative to the assigned rating of Aa2. The city's full value per capita (\$183,155) is much stronger than the US median, and increased dramatically from 2013 to 2017. In addition, the median family income equals a robust 155.4% of the US level. However, the total full value (\$4.7 billion) is above other Moody's-rated cities nationwide.

Debt and Pensions: The debt burden of West Linn is small and is a credit strength when compared to its Aa2 rating. The net direct debt to full value (0.3%) is materially lower than the US median, and slightly declined from 2013 to 2017. Yet, the pension liability of the city is mid-ranged and is unfavorable relative to the assigned rating of Aa2. The Moody's-adjusted net pension liability to operating revenues (1.7x) is roughly equivalent to the US median.

Finances: The financial position of West Linn is solid. However, this factor is weak when compared to city's Aa2 rating. The cash balance as a percent of operating revenues (14.8%) is materially below the US median, and fell from 2013 to 2017. Moreover, the fund balance as a percent of operating revenues (12.8%) is much lower than the US median.

Management and Governance: Oregon cities have an Institutional Framework score ³ of Aa, which is high. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Property tax, a major revenue source, is subject to a cap which can be overridden with voter approval only. However, the cap of approximately 3% for most properties still allows for moderate revenue-raising ability. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures but growing pension contributions are increasing fixed costs burdens. However, Oregon has public sector unions, which can limit

the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Sector Trends - Oregon Cities

Oregon cities are expected to perform well as the state's economy continues to expand. Full values are increasing and gaining back losses experienced during the downturn. Property tax revenue growth will be strong as a result of economic expansion. The improving economy continues to attract in-migration, which will, over time, increase the cost of service provision. Additionally, statewide economic expansion should result in increased state revenues, which could mean additional grant funding for local governments. Pension costs remain a long-term concern, and contribution rates will increase in coming years.

EXHIBIT 1

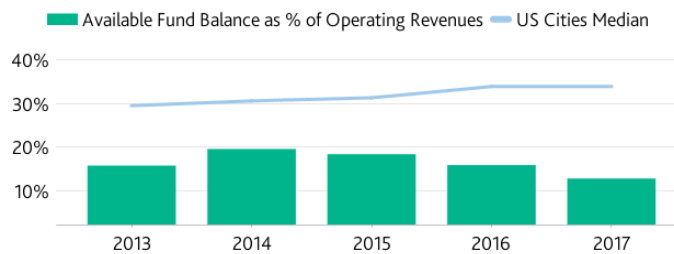
Key Indicators [4.5](#) West Linn

	2013	2014	2015	2016	2017	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	\$3,305M	\$3,460M	\$3,885M	\$4,232M	\$4,691M	\$1,867M	Improved
Full Value Per Capita	\$129,809	\$134,616	\$149,637	\$161,272	\$183,155	\$89,200	Improved
Median Family Income (% of US Median)	156%	156%	153%	155%	155%	113%	Stable
Finances							
Available Fund Balance as % of Operating Revenues	15.8%	19.6%	18.4%	15.9%	12.8%	33.9%	Stable
Net Cash Balance as % of Operating Revenues	21.0%	27.3%	22.2%	20.3%	14.8%	36.9%	Weakened
Debt / Pensions							
Net Direct Debt / Full Value	0.6%	0.5%	0.4%	0.4%	0.3%	1.1%	Stable
Net Direct Debt / Operating Revenues	0.92x	0.82x	0.73x	0.64x	0.52x	0.88x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	1.3%	1.3%	0.9%	0.8%	0.9%	1.8%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	2.03x	2.06x	1.61x	1.35x	1.65x	1.51x	Stable
	2013	2014	2015	2016	2017	US Median	
Debt and Financial Data							
Population	25,462	25,710	25,963	26,242	25,615	N/A	
Available Fund Balance (\$000s)	\$3,333	\$4,294	\$4,184	\$3,765	\$3,300	\$7,419	
Net Cash Balance (\$000s)	\$4,439	\$5,983	\$5,056	\$4,804	\$3,814	\$8,404	
Operating Revenues (\$000s)	\$21,110	\$21,918	\$22,744	\$23,671	\$25,722	\$21,930	
Net Direct Debt (\$000s)	\$19,461	\$18,075	\$16,618	\$15,100	\$13,500	\$18,580	
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$42,852	\$45,106	\$36,699	\$31,839	\$42,373	\$32,507	

Source: Moody's Investors Service

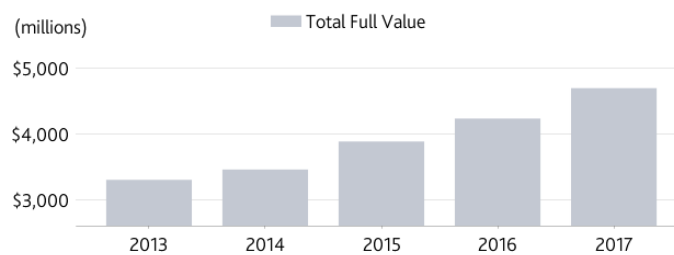
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EXHIBIT 2

Available fund balance as a percent of operating revenues was stable from 2013 to 2017

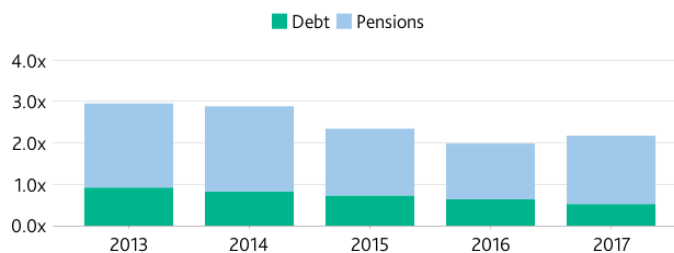
Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

Full value of the property tax base increased from 2013 to 2017

Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues remained stable from 2013 to 2017

Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

Endnotes

- The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.
 - The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.
- The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.
- The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(December 2016\)](#) methodology report for more details.
 - For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). Metrics represented as N/A indicate the data were not available at the time of publication.
 - The medians come from our most recently published local government medians report, [Medians - Property values key to stability, but pension burdens remain a challenge \(March 2018\)](#) which is available on Moodys.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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