

RatingsDirect®

Summary:

West Linn, Oregon; General Obligation

Primary Credit Analyst:

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

Secondary Contact:

Kaila Spalinger, Centennial 303.721.4685; kaila.spalinger@standardandpoors.com

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Credit Profile

US\$5.15 mil full faith and credit proj and rfdg oblig ser 2015 due 06/01/2035

Long Term Rating AA+/Stable New

West Linn GO

Long Term Rating AA+/Stable Upgraded

Rationale

Standard & Poor's Ratings Services raised its long-term rating to 'AA+' from 'AA' on West Linn, Ore.'s general obligation bonds and full faith and credit obligations outstanding due to the city's improved budgetary performance. At the same time, Standard & Poor's assigned its 'AA+' long-term rating to the city's series 2015 full faith and credit project and refunding obligation bonds. The outlook is stable.

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 understand the bonds are being issued to finance improvements to the Bolton Reservoir and to refund on a current basis all or a portion of the outstanding water revenue bonds, series 2000, and advance refund all or a portion of the outstanding full faith and credit obligations, series 2009B.

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 operating surpluses in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 23% of operating expenditures;
- Very strong liquidity, with total government available cash of 50.8% of total governmental fund expenditures and 6.4x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges of 7.9% of expenditures and net direct debt that is 63.1% 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 25,540, 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 141% of the national level and per capita market value of \$165,705. Overall, the city's market value grew by 8.9% over the past year to \$4.2 billion in 2016. The county unemployment rate was 6.3% in 2014.

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 6.6% of assessed value, and population has grown by 10% over the past year.

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 monitor all of them on a regular basis.

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 10% to 15% in each fund as a cushion against unexpected items.

Strong budgetary performance

West Linn's budgetary performance is strong in our opinion. The city had operating surpluses of 4.1% in the general fund and 7.8% across all governmental funds in fiscal 2014.

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.

The city's property tax revenue rebounded in fiscal 2013, contributing to the city's surplus in fiscal 2014. In addition, West Linn took over the financial management of the cities of Milwaukee and Damascus, bringing in approximately \$300,000 in additional annual revenue. In fiscal 2015, West Linn is expecting a general fund operating deficit of approximately \$169,000 (0.9% of expenditures); however, this is due mostly to a one-time expenditure on new financial software. The city is also expecting a \$136,000 (0.5% of expenditures) operating deficit in its total governmental fund in fiscal 2015. This incorporates adjustments to the governmental fund result for capital expenditures in the Public Safety Fund, paid for by proceeds from the series 2012 bond issuance, and a one-time expenditure in the Systems Development Charges (SDC) Fund paid for by grant proceeds from a neighboring city. The public safety expenses went toward the completion of a new police station, while the SDC Fund supported the replacement of a pump station in anticipation of the reservoir upgrade.

Very strong budgetary flexibility

West Linn's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 of 23% of operating expenditures, or \$4.1 million.

The city expects available funds will remain at a level we consider very strong, with fiscal 2015 estimates indicating a balance of \$3.8 million, or 19.1% of operating expenditures. 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 15% of expenditures, given current projections of less than 1% operating deficits in the near term.

Very strong liquidity

In our opinion, West Linn's liquidity is very strong, with total government available cash of 50.8% of total governmental fund expenditures and 6.4x governmental debt service in 2014. In our view, the city has strong access to external liquidity if necessary.

The city estimates available cash will decline in fiscal 2015 to 40.7% of total governmental fund expenditures, which we still view as very strong. 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.

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 7.9% of total governmental fund expenditures, and net direct debt is 63.1% 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 claims the city has no plans to issue additional debt over the next two years.

West Linn's combined pension and other postemployment benefits (OPEBs) contributions totaled 4.2% of total governmental fund expenditures in 2015. Of that amount, 3.7% represented contributions to pension obligations and 0.5% represented OPEB payments. The city made its full annual required pension contribution in 2015.

The city participates in the Oregon Public Employees Retirement System, and contributed \$943,000 in 2014. This represents its full annual required contribution and 5.2% of general fund expenditures. In addition, the city funds its OPEBs on a pay-as-you-go basis.

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 Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

Institutional Framework Overview: Oregon Local Governments

Ratings Detail (As Of November 23, 2015)			
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		Upgraded
West Linn GO			
Long Term Rating	AA+/Stable		Upgraded

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