

RatingsDirect®

Summary:

Wilsonville, Oregon; General Obligation

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Credit Profile

Wilsonville full faith and credit obligs

Long Term Rating

AAA/Stable

Upgraded

Rationale

S&P Global Ratings raised its long-term rating to 'AAA' from 'AA+' on Wilsonville, Ore.'s existing full faith and credit bonds. The outlook is stable.

The rating action reflects our view of the city's improved management assessment reflecting the adoption of formalized policies and practices that we consider strong. The rating action also reflects our view of the city's improved local economy reflecting higher per capita income and overall wealth levels.

The existing full faith and credit bonds are secured by the full faith and credit obligation of the city, including the obligation to levy sufficient property taxes, within statutory restrictions. Based on the application of our criteria, titled "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness," (published Jan. 22, 2018, on RatingsDirect), we do not differentiate between the city's limited-tax GO debt and its general creditworthiness, since the ad valorem tax is not derived from a measurably narrower tax base than the city as a whole and there are no limitations on the fungibility of resources.

The city's full faith and credit obligations are eligible to be rated above the sovereign because we believe the city can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect, U.S. local governments are considered to have moderate sensitivity to country risk. The institutional framework in the U.S. is predictable for local governments, allowing them significant autonomy, independent treasury management, and no history of government intervention. The pledged revenues are also all locally derived.

The rating reflects our view of the following credit factors:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with "strong" 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 in fiscal 2017;
- Very strong budgetary flexibility, with a high available fund balance in fiscal 2017 of 113% of operating expenditures;
- Very strong liquidity, with total government available cash at 3.0x total governmental fund expenditures and 28.0x

governmental debt service, and access to external liquidity we consider strong;

- Adequate debt and contingent liability position, with debt service carrying charges at 10.6% of expenditures and net direct debt that is 99.7% of total governmental fund revenue, as well as rapid amortization, with 81.4% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Wilsonville's economy very strong. The city, with an estimated population of 24,315, is located in Clackamas and Washington counties in the Portland-Vancouver-Hillsboro, OR-WA MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 121% of the national level and per capita market value of \$189,372. Overall, the city's market value grew by 4.8% over the past year to \$4.6 billion in 2018. The weight-averaged unemployment rate of the counties was 3.7% in 2017.

The city is 20 miles south of downtown Portland, about midway between Portland and the state capital, Salem. The city is home to several high-tech businesses including Mentor Graphics (a design CAD software company), Rockwell Collins (Aerospace Technology), and Precision Interconnect (medical and technical equipment). Additionally, the city also serves as a bedroom community with residents commuting to the neighboring city of Portland and the surrounding MSA for employment opportunities. The city's tax base is primarily residential and both assessed value (AV) and market value (MV) have been growing consistently over the past several years, reaching a total per capita market value of \$189,372, which we consider extremely strong. Income levels for the city have also demonstrated a steady increase over the past few years with a projected per capita EBI of 121%. Given the positive trend in the city's economic metrics, we believe the local economy will remain very strong over the long-term.

Very strong management

We view the city's management as very strong, with "strong" financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

We have revised the city's FMA score to strong from good based on the adoption of a formalized debt management policy as well as maintenance of other formalized policies and practices that the city currently maintains. These policies and practices include using historical trends to project future revenues and the inclusion of known one-time capital expenditures within the city's budget and long-term projections. The city presents its budget-to-actuals formally to city council on a quarterly basis and monthly to the city manager and city staff. The city maintains a formal five-year financial forecast that is updated on an annual basis and also maintains a formal five-year capital improvement plan that identifies funding for its major projects. The city maintains a formal investment policy and a formal debt management policy that provides limitations on the total debt the city can have outstanding and details the types of debt the city may utilize. Finally, the city maintains a formal reserve policy that includes maintaining a 15% reserve within the committed portion of its general fund.

Strong budgetary performance

Wilsonville's budgetary performance is strong in our opinion. The city had operating surpluses of 7.4% of expenditures in the general fund and of 31.7% across all governmental funds in fiscal 2017. Our assessment accounts for the fact that we expect the city may spend down some of its available reserves for capital projects, although we believe the city

will continue to maintain balanced operations over the medium term despite some planned capital spending. The city has demonstrated strong budgetary performance over the past several years, in part due to its property tax, franchise and hotel tax revenues, which have been increasing over the past few years. Property taxes revenues and franchise and hotel tax represent 33% and 18% of the city's governmental activities revenues respectively. The city's fiscal 2018 budget reflects a use of \$2.7 million of reserves although management indicates this is a conservative budget and actual results are likely to end higher once the fiscal 2018 audit is finalized. Estimated actuals for the general fund show total general fund balance ending at \$16.15 million. Overall, given the positive trend, we expect the city's budgetary performance to remain strong over the next two years.

Very strong budgetary flexibility

Wilsonville's budgetary flexibility is very strong, in our view, with a high available fund balance in fiscal 2017 of 113% of operating expenditures, or \$14.5 million. We expect the available fund balance to remain above 75% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

The city has maintained very strong fund balance reserves within its general fund over the past three fiscal years. The city maintains a formal reserve policy to maintain at least 15% of expenditures within the committed portion of its general fund, although the city has historically maintained significantly more funds above the 15% minimum within its general fund. Management indicates they plan to use its reserves to fund one-time capital items and has budgeted to use \$4 million of existing reserves for capital projects in fiscal 2019. However, we still expect reserves to remain above 75% even with this planned spending. Going forward, management indicates they draw down existing reserves for continued capital projects although we expect the city's flexibility score to remain very strong at a minimum over the next two years.

Very strong liquidity

In our opinion, Wilsonville's liquidity is very strong, with total government available cash at 3.0x total governmental fund expenditures and 28.0x governmental debt service in 2017. In our view, the city has strong access to external liquidity demonstrated by the city's issuance of debt during the past 20 years.

The city has maintained very strong liquidity levels, and we do not expect its liquidity levels to weaken during the next two years. We do not consider the city's investments aggressive, as it primarily invests in U.S. government securities. Management has confirmed that the city has no alternative financing obligations outstanding. We do not expect that liquidity will weaken over the next several years.

Adequate debt and contingent liability profile

In our view, Wilsonville's debt and contingent liability profile is adequate. Total governmental fund debt service is 10.6% of total governmental fund expenditures, and net direct debt is 99.7% of total governmental fund revenue. Approximately 81.4% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

The city does not have plans to issue additional long-term debt that is secured by its taxing base over the next several years. We understand the city may issue additional revenue bonds to support its enterprise operations during the next two to four years to finance improvements to its water treatment plant.

Wilsonville's combined required pension and actual other postemployment benefits (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 (OPERS) which is a cost-sharing multiple employer defined benefit plan. The city continues to make its full actuarially determined contribution (ADC) in fiscal 2017. The plan currently uses a discount rate of 7.5%, which we view as above average, and total net pension liability is \$16.7 million. However, total pension costs represent only 3.6% of the city's total governmental expenditures, which we consider to be manageable. The city also provides other postemployment benefits (OPEB) and has contributed 100% of the annual required contribution, which totaled \$39,330 in fiscal 2017.

Strong institutional framework

The institutional framework score for Oregon municipalities is strong.

Outlook

The stable outlook reflects our view of the city's growing local economy, its adoption and practice of its formalized management policies as well as the city's maintenance of its very strong flexibility scores demonstrated by its very strong general fund balances. We expect the city will continue to maintain its very strong reserve and liquidity levels and will likely not substantially increase its debt and liability levels over the next two years. We do not expect to change the rating during the next two years.

Downside scenario

We could lower the rating if the city draws down its available general fund balances to levels that would substantially weaken its flexibility score.

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

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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