MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa1 to city of Lawrence, KS's $9.6M GO Bonds Ser. 2015-A and MIG 1 to $10.9M Ser. 2015-I GO Notes

Global Credit Research - 21 Aug 2015

$109 million of debt affected

LAWRENCE (CITY OF) KS
Cities (including Towns, Villages and Townships)
KS

Moody's Rating

ISSUE		RATING
General Obligation Temporary Notes, Series 2015-I		MIG 1
Sale Amount	$10,880,000	
Expected Sale Date	08/24/15	
Rating Description	General Obligation	
General Obligation Improvement Bonds, Series 2015-A		Aa1
Sale Amount	$9,610,000	
Expected Sale Date	08/24/15	
Rating Description	General Obligation	

Moody's Outlook NOO

NEW YORK, August 21, 2015 --Moody's Investors Service has assigned a Aa1 rating to the city of Lawrence's (KS) $9.61 million General Obligation Improvement Bonds, Series 2015-A and a MIG 1 rating to the $10.88 million General Obligation Temporary Notes, Series 2015-I. Concurrently, we have affirmed the Aa1 rating on the city's outstanding long term general obligation debt. Post-sale, the city will have $98.1 million of GO debt outstanding and $10.88 million of temporary notes outstanding.

SUMMARY RATING RATIONALE

The Aa1 rating reflects the large and stable tax base, anchored by the University of Kansas (Aa2 stable), strong fiscal management evidenced by a history of surplus operations and adequate operating reserves, an average socioeconomic profile and a manageable debt burden.

The MIG 1 rating reflects the city's long history of market access, strong takeout management and alternative plans, solid internal liquidity, and credit characteristics inherent in a strong underlying rating.

OUTLOOK

Outlooks are generally not assigned to local government credits with this amount of debt outstanding.

WHAT COULD MAKE THE RATING GO UP

-Reduction in long term liabilities

-Sustained increases in General Fund liquidity

WHAT COULD MAKE THE RATING GO DOWN

-Material declines in operating reserve levels

-Substantial increases to the net direct debt burden

-Protracted declines in assessed value

STRENGTHS

-Large and stable tax base

-Institutional presence of the University of Kansas

-Stable financial operations with healthy reserve levels and alternate liquidity

-History of market access for bonds and notes

CHALLENGES

-Moderate dependence on economically sensitive sales tax revenues

-High annual fixed costs

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: LARGE AND STABLE TAX BASE ANCHORED BY UNIVERSITY OF KANSAS

The city of Lawrence (Aa1) is located in northeastern Kansas, approximately 28 miles east of Topeka (Aa3) and 40 miles west of Kansas City, MO (Aa2 stable), and is the home of the University of Kansas. The city's population is currently about 95,000, which is up from 80,000 as of the 2000 census. The $7.4 billion estimated full value has returned to growth over the past two years following modest declines during the recession, equating to a five year average annual growth rate of 0.6%. Based on the preliminary numbers from the county, the city anticipates a 1.8% growth factor for the fiscal 2016 tax base. The housing sector has shown some movement in the city and both residential and commercial building permit levels have been steady over the past five years. Calendar year 2015 new construction permit data (through July 31) includes 93 residential permits and 12 commercial permits, which is well over two-thirds the volume issued for calendar year 2014. With the new construction in process, we expect modest increases to assessed value over the near term.

Growth in the employment base, and above-average wage increases are supporting economic strength and expansion. Unemployment in the city was 4% as of June 2015, below the state's level of 4.4% and the national level of 5.3% over the same period, and is posting growth in its labor force. Of note, the healthcare sector is in a growth mode locally, and the city reports it opened its first new industrial park in the past year. City officials expect the completion of the K-10 highway, which now connects with Interstate 70, will be a major growth driver going forward. In addition, the University of Kansas, a research institution and anchor to the Lawrence community, has been growing in its national research profile. Most notably, the university is now allowed to bid on classified contracts with federal agencies and has started to receive grant money for defense related research. The KU Medical Center has been on a similar track, and recently received $10 million in federal money to conduct an obesity study. Student enrollment is approximately 25,000 or just under one-third of the city's total population. Despite the large student population in the city, the socioeconomic profile is still just above national medians.. As of the 2012 American Communities Survey, the city's median family income was 104% of the national median.

FINANCIAL OPERATIONS AND RESERVES: HISTORY OF SURPLUS OPERATIONS; ADEQUATE RESERVES BOLSTERED BY OUTSIDE LIQUIDITY

The city's financial position is expected to remain stable due to the presence of healthy reserves and history of stable operations. The city's reserve policy calls for maintaining an unassigned General Fund balance between 15-30% of expenditures, a level it currently meets. As of fiscal 2014, the city ended the year with essentially balanced operations, posting a $191,000 surplus in the General Fund due to better than expected sales tax revenues and close monitoring of expenditures. Sales and use taxes increased by 5.5% in 2014 and are reportedly up 4.8% through August 2015. Based on year to date results, the city anticipates reporting an operating surplus of approximately $700,000 for fiscal 2015. The city has a practice of conducting a mid-year review of revenues and expenses versus the budget, and closely monitors each in order to achieve at least a modest surplus annually. Looking forward, the city has built their 2016 budget around the anticipated 1.8% increase in the tax base and no change to the mill levy, as well as a 3% growth assumption for sales tax revenues.

The city is moderately reliant on economically sensitive sales tax revenues from its pro rata share of a 1% countywide sales tax and 1.55% citywide sales tax for operations. In fiscal 2014, sales tax revenues and property tax revenues each accounted for approximately a third of operating revenues (General Fund and Debt Service Fund). Sales tax revenue trends have been strong, with the revenue source growing at an average annual rate of 6% over the past five years.

Liquidity

The city maintains an available General Fund balance of $13.6 million, representing approximately 22.8% of General Fund revenues. Additionally, the city maintains $10.7 million in the Debt Service fund, bringing the combined operating funds available balance to $24.3 million, or a healthy 34.6% of operating revenues. In addition to the combined operating funds, the city reports that balances in the Sales Tax Reserve Fund and the Equipment Reserve Fund are not committed to specific projects or capital expenses, derive funds from the General Fund, and available balances could be transferred back to the General Fund for operations if necessary. As of fiscal 2014, the Sales Tax Reserve Fund and Equipment Reserve Fund maintained a combined balance of $9.7 million.

The net cash balance in the combined operating funds (General Fund and Debt Service Fund) as of fiscal 2014 was $23.3 million, a strong 33.2% of operating revenues.

DEBT AND PENSIONS: MANAGEABLE DEBT AND PENSION BURDEN

The city's debt burden is expected to remain manageable over the long term due to the modest planned general government capital expenses over a five year period, and the expected use of alternate revenue sources for debt service on long term bonds once short term notes are retired. Based on net direct debt to the tax base of $101.2 million, the debt burden represents 1.5% of the fiscal taxable value, which is slightly elevated for the rating category. Additionally, debt service represented an above-average 14% of operating revenues in fiscal 2014. Despite the fact that the 2015-I note will add to the long-term fixed costs upon take-out, we believe the addition will be modest given the fact the majority of the notes are intended to be paid from special assessments levied on specific property within special benefit districts in the city.

Debt Structure

All of the city's direct debt is fixed rate. The city utilizes short-term debt to provide interim financing and post-sale, the 2015-I notes will represent the only short term debt outstanding. Principal amortization on the city's debt portfolio is average, with 70.9% retired within ten years.

Expected Market Access for Refinancing

The city is expected to continue its demonstrated ability to access the market, with a history of receiving multiple bids on its temporary notes. Most recently in August 2014, the city received four bids on its 2014-II and 2014-III GO note issuances. The city may choose to retire all or a portion of its outstanding notes with new offerings or long term bonds, depending on the level of project completion prior to maturity. The 2015-I notes are ultimately secured by the city's general obligation unlimited tax pledge.

City management is expected to make adequate provisions to address potential market disruptions at the time of take-out by planning to refinance the notes over a year in advance of maturity. In addition, the city maintains solid liquidity with approximately $59.2 million in cash and short term investments across all governmental funds as of fiscal 2014, a full five times the par amount of the 2015-I notes.

Debt-Related Derivatives

The city is not a party to any derivative agreements.

Pensions and OPEB

Lawrence has a manageable level of exposure to two statewide cost-sharing pension plans, the Kansas Public Employees Retirement System (KPERS) and the Kansas Police and Fireman's Retirement System (KP&F). Both plans are administered under KPERS, and the city has consistently made its required contributions to both plans in accordance with statutory requirements. Total city pension contributions in fiscal 2014 amounted to $7.2 million or a high 10.2% of 2014 operating revenues and contributions to KPERS are expected to increase by at least

0.6% of payroll and up to 1.2% of payroll annually through fiscal 2017. Moody's fiscal 2014 adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, is $165.2 million, or 2.4 times operating revenues, including the General Fund and Debt Service Fund.

Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace Lawrence's reported liability, but to improve comparability with other rated entities. We determined the city's share of liability for the cost-sharing plans administered under KPERS in proportion to its contributions to the plan. We expect that the city will adequately incorporate rising pension costs into its budget while maintaining balanced operations.

MANAGEMENT AND GOVERNANCE

Kansas cities have an institutional framework score of "Aa" or strong. Cities rely on both property and sales taxes as their primary revenue sources. Cities presently have the ability to raise property taxes without voter approval. Cities are also able to reduce expenditures as employee contracts in Kansas are generally not subject to collective bargaining. However, the city of Lawrence does have collective bargaining units for police and fire. The city reports good relations with both unions, and recently entered into a three year agreement with police and a four year agreement with fire.

During the 2015 legislative session, the Kansas legislature passed a bill, known as the property tax lid, which limits increases in the amount of property tax a city may generate over the prior fiscal year to the most recent Consumer Price Index. Should a city seek to increase the amount collected above CPI, they must seek voter approval. There are many exemptions to this law, including debt service, tax base expansion related to new construction, federal and state mandates, and infrastructure expenses, among others. The property tax lid is set to commence January 1, 2018. Due to the multitude of broad exemptions and the importance of sales tax on the city's operations, the city does not expect a large impact from the legislation.

KEY STATISTICS

-FY 2014/15 Full Value: $7.4 billion

-FY 2014/15 Full Value Per Capita: $78,475

-2012 ACS Median Family Income as a % of the US: 104.3%

-FY 2013 Operating Fund Balance as a % of Operating Revenues: 34.6%

-5 Year Dollar Change in Fund Balance as a % of Operating Revenues: -6.7%

-FY 2013 Operating Cash Balance as a % of Operating Revenues: 33.2%

-5 year Dollar Change in Cash Balance as a % of Operating Revenues: -8.1%

-Institutional Framework: Aa

-Operating History: 5 Year Average of Operating Revenues/Operating Expenditures: 0.99x

-Net Direct Debt/Full Value: 1.5%

-Net Direct Debt/Operating Revenues: 1.6x

-3 year Average of Moody's Adjusted Net Pension Liability/Full Value: 2.2%

-3 year Average of Moody's Adjusted Net Pension Liability/Operating Revenues: 2.4x

OBLIGOR PROFILE

The city of Lawrence is located 28 miles east of Topeka and 40 miles west of Kansas City, MO, and is the home of the University of Kansas. The current population is approximately 95,586.

LEGAL SECURITY

The bonds are secured by the city's general obligation unlimited tax pledge in which the full faith, credit and resources of the city are pledged and will be payable from ad valorem taxes, which may be levied without limitation as to rate or amount.

The notes are secured by the proceeds of general obligation bonds, or, the city's general obligation unlimited tax pledge.

USE OF PROCEEDS

The Series 2015-A bonds will provide long term financing for the 2014-II and 2014-III notes and new construction funds for public infrastructure. The 2015-I notes will provide interim financing for general public infrastructure as well as infrastructure related to special benefit districts within the city.

RATING METHODOLOGIES

The principal methodology used in the long-term rating was US Local Government General Obligation Debt published in January 2014. The principal methodology used in the short-term rating was US Bond Anticipation Notes published in April 2014. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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