MOODY'S
INVESTORS SERVICE

CREDIT OPINION
7 September 2017

New Issue

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City of Lawrence, KS

New Issue - Moody's Assigns Aa1 to Lawrence, KS' GOULT 2017 Bonds

Summary Rating Rationale

Moody's Investors Service has assigned an Aa1 rating to the City of Lawrence, KS's $15.6 million General Obligation Improvement Bonds, Series 2017-D. We maintain the Aa1 rating on the city's outstanding general obligation debt, and a MIG-1 rating on the outstanding temporary note. Post-sale, the city will have $118.1 million of GO debt outstanding and $6 million of temporary notes outstanding.

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

Credit Strengths

- Large and stable tax base
- Institutional presence of the University of Kansas
- Stable financial operations with healthy reserve levels

Credit Challenges

- Moderate dependence on economically sensitive sales tax revenues
- Above-average annual fixed costs relative to operating revenues

Rating Outlook

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

Factors that Could Lead to an Upgrade

- Reduction in long term liabilities
- Sustained increases in reserve and liquidity levels

Factors that Could Lead to a Downgrade

- Material declines in operating reserve or liquidity levels
- Substantial increases to the debt profile
- Protracted declines in assessed value

Key Indicators

Exhibit 1

Lawrence (City of) KS	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value ($000)	$ 7,107,085	$ 7,053,269	$ 7,261,947	$ 7,422,645	$ 7,592,219
Full Value Per Capita	$ 80,796	$ 79,321	$ 80,515	$ 81,295	$ 77,513
Median Family Income (% of US Median)	104.5%	106.7%	107.1%	106.0%	106.0%
Finances					
Operating Revenue ($000)	$ 66,196	$ 68,226	$ 70,224	$ 72,528	$ 78,055
Fund Balance as a % of Revenues	34.1%	33.8%	34.6%	33.2%	40.4%
Cash Balance as a % of Revenues	35.7%	34.6%	33.2%	32.9%	36.1%
Debt/Pensions					
Net Direct Debt ($000)	$ 88,216	$ 120,588	$ 111,875	$ 102,395	$ 109,052
Net Direct Debt / Operating Revenues (x)	1.3x	1.8x	1.6x	1.4x	1.4x
Net Direct Debt / Full Value (%)	1.2%	1.7%	1.5%	1.4%	1.4%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	2.1x	2.4x	2.4x	2.3x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	2.0%	2.3%	2.3%	2.4%

Source: Lawrence Audited Financial Statements, Moody's Investors Service

Detailed Rating Considerations

Economy and Tax Base: Large and Stable Tax Base Anchored by University of Kansas

The city's tax base will remain stable and continue to post modest annual growth supported by the stabilizing presence of the University of Kansas (Fall 2016 enrollment of 28,401). Lawrence is located in northeastern Kansas, approximately 28 miles east of Topeka (Aa3) and 40 miles west of Kansas City, MO (Aa2 negative), and is the home of the University of Kansas. The city's population is approximately 95,600, up from approximately 87,700 as of the 2010 census. The $7.9 billion fiscal 2017 full value has grown for the past four years following modest declines during the recession, equating to a five year average annual growth rate of 2.1%. Preliminary information for the 2018 fiscal year suggests that the city's tax base will grow by approximately 6%, which city officials attribute to a wide variety of development in process, including single-family residential, hotels, industrial, and mixed use development.

Modest growth in the employment base and above-average wage increases are supporting economic strength and expansion. Unemployment in the city was a low 3.7% as of June 2017, below state and national levels of 4.0% and 4.5%, respectively. While unemployment remains low, the labor force continues its modest growth. City officials expect that the recent completion of the K-10 highway, which now connects Interstate 70 to Johnson County, 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 expanding and 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. Student enrollment is approximately 25,000, or approximately one-quarter of the city's total population. Despite the city's large student population, wealth indices are just above average with the median family income of 106% of the nation per the 2015 American Community Survey which has been increasing over the past four decades.

Financial Operations and Reserves: Strong Reserves with No Deterioration Expected

The city's financial position will remain stable due to the presence of healthy reserves, history of stable operations, and strong financial management. The city's reserve policy calls for maintaining an unassigned General Fund balance between 15-30% of expenditures, a level it has historically met and budgets to adhere to going forward. The city's fiscal 2016 available General Fund balance was $20.6 million, representing 30.5% of General Fund revenues. Lawrence experienced a $4 million General Fund surplus on the year, which city officials attribute both to an accounting change and the liquidation of a reserve fund into the general fund. The available operating funds balance, inclusive of the General and Debt Service Funds, are also healthy at 40.4% of revenue. Midyear budget projections indicate deficit General Fund operations, although city officials predict that year-end results will indicate a surplus due to higher than anticipated revenue. Over the long range, the city does not plan on substantially changing its level of reserves.

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 2016, sales tax revenues and property tax revenues each accounted for just under 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 4.5% over the past five years.

LIQUIDITY

The net cash balance in the combined operating funds as of fiscal 2016 was $28.2 million, a strong 36.1% of operating revenues. Based on the city's financial expectations for fiscal 2017, we do not anticipate a deterioration in liquidity in the near term.

Debt and Pensions: Manageable Debt Burden Expected to Remain Stable

The city's net direct debt as a percent of the fiscal 2017 tax base is 1.6% which is manageable for the city though slightly elevated for the rating category. Debt levels relative to the size of the tax base will remain stable over the near term given annual planned issuances balanced by tax base growth and principal amortization. Overall net debt, inclusive of debt issued by overlapping entities, is also manageable at 2.8% of fiscal 2017 assessed value. Lawrence is a frequent issuer of debt and city officials expect to continue issuing debt over the next few years, although a material rise in the debt burden is not anticipated.

Fixed costs (debt service, pension and OPEB expenses) for the city are elevated relative to peers. Over the past five years, debt service costs as a percent of operating revenues has consistently hovered around 15%. Inclusive of pension contributions, total fixed costs represented 24.8% of fiscal 2016 operating revenues.

DEBT STRUCTURE

All of the city's direct debt is fixed rate. Principal amortization on the city's general obligation debt is slightly below average, with 69% retired within ten years. Post-sale, the city will have one temporary note outstanding in the amount of $6 million. The note matures in 2020 and is expected to be paid through long-term debt.

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 2016 amounted to $7.6 million or a relatively high 9.8% of 2016 operating revenues. KPERS recently reduced the assumed rate of return from 8% to 7.75%, which will translate to increased contributions starting in fiscal 2019. The increased pension costs are expected to be manageable, and potentially fall under an exemption of the property tax lid legislation.

Moody's three year average (2014-2016) adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, is $179 million, or 2.3 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: Very Strong Institutional Framework

The city of Lawrence is governed by a 5-member city commission and operated under a commission-manager form of government. The city's management team exhibits prudent fiscal and debt management evidenced by the city's healthy operating results.

Kansas Cities have an Institutional Framework score of Aaa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. The sector has one or more major revenue sources that are not subject to any caps. Specifically, large revenue sources for cities include property taxes and sales taxes. Sales taxes can be increased via voter referendum. Property taxes are now subject to an annual lid which limits the additional amount of taxes generated to the previous year plus the five year rolling average of the Consumer Price Index; however, numerous exemptions are stipulated in the legislation including expenses for debt service, public safety, and state and federal mandates among others. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Kansas is a Right to Work state, providing significant expenditure-cutting ability. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

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.

Use of Proceeds

Bond proceeds will be used to refund previously issued temporary notes and also to directly fund street improvements and building repairs.

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 95,600.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 2

Lawrence (City of) KS

Issue	Rating
General Obligation Improvement Bonds, Series 2017-D	Aa1
Rating Type	Underlying LT
Sale Amount	$15,575,000
Expected Sale Date	09/12/2017
Rating Description	General Obligation

Source: Moody's Investors Service

REPORT NUMBER 1088967

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