MOODY'S INVESTORS SERVICE

ISSUER COMMENT
13 August 2018

RATING

General Obligation (or GO Related) [1]	
Aa1	No Outlook

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City of Lawrence, KS

Annual Comment on Lawrence

Issuer Profile

The City of Lawrence is the county seat of Douglas County, and is located in northeastern Kansas, approximately 30 miles west of the Kansas City metro area and 35 miles east of Topeka. The county has a population of 116,352 and a moderate population density of 255 people per square mile. The county's median family income is $76,202 (1st quartile) and the May 2018 unemployment rate was 2.9% (2nd quartile) [2] . The largest industry sectors that drive the local economy are retail trade, accommodation/food services, and professional/ scientific/technical services.

Credit Overview

Lawrence's credit position is very good, and its Aa1 rating is stronger than the US cities median of Aa3. Key credit factors include a robust financial position, an ample tax base and a strong wealth and income profile. The credit position also reflects a light debt burden and a somewhat elevated pension liability.

Finances: Lawrence has a very healthy financial position, which is slightly favorable when compared to the assigned rating of Aa1. The city's cash balance as a percent of operating revenues (39.1%) is on par with the US median, and increased modestly from 2013 to 2017. In addition, fund balance as a percent of operating revenues (42.2%) is slightly stronger than the US median.

Economy and Tax Base: The economy and tax base of the city are very healthy, yet they are slightly weak when compared to its Aa1 rating. Lawrence's total full value ($7.9 billion) is materially above the US median, and grew markedly between 2013 and 2017. Additionally, median family income equates to a healthy 110.1% of the US level. Lastly, full value per capita ($79,112) is consistent with other cities nationwide.

Debt and Pensions: The debt and pension liabilities of Lawrence are mid-ranged overall, yet they are a weakness when compared to the assigned rating of Aa1. Net direct debt to full value (1.5%) is slightly above the US median, and stayed flat from 2013 to 2017. Furthermore, Moody's-adjusted net pension liability to operating revenues (2.4x) unfavorably exceeds the US median.

Management and Governance: Kansas cities have an Institutional Framework score [3] 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.

Sector Trends - Kansas Cities

Kansas cities are expected to experience moderate growth over the near term, albeit slower than the nation. Continued tax base expansion through ongoing development and property appreciation in major population centers will benefit most larger cities. Additionally, the educated workforce, business-friendly environment, low cost of doing business, and vibrant aerospace cluster will support economic growth. We expect the trend of modest tax base expansion and sales tax growth to lead to fiscal stability for most cities. These positive trends are somewhat mitigated by fiscal challenges at the state level.

EXHIBIT 1

Key Indicators [4] [5] Lawrence

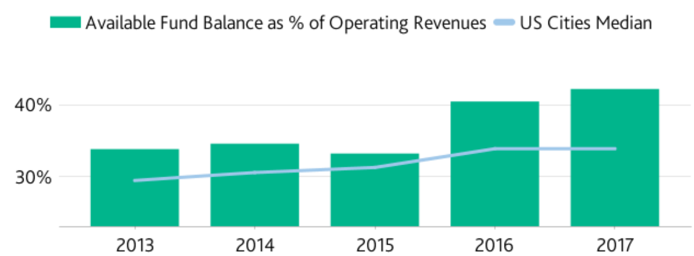
	2013	2014	2015	2016	2017	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	$7,053M	$7,261M	$7,422M	$7,592M	$7,871M	$1,867M	Improved
Full Value Per Capita	$79,321	$80,515	$81,295	$81,980	$79,112	$89,200	Stable
Median Family Income (% of US Median)	107%	107%	106%	110%	110%	113%	Stable
Finances							
Available Fund Balance as % of Operating Revenues	33.8%	34.6%	33.2%	40.4%	42.2%	33.9%	Improved
Net Cash Balance as % of Operating Revenues	34.6%	33.2%	32.9%	36.1%	39.1%	36.9%	Stable
Debt / Pensions							
Net Direct Debt / Full Value	1.7%	1.5%	1.4%	1.4%	1.5%	1.1%	Stable
Net Direct Debt / Operating Revenues	1.77x	1.59x	1.41x	1.40x	1.48x	0.88x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	2.0%	2.3%	2.3%	2.4%	2.5%	1.8%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	2.11x	2.35x	2.38x	2.29x	2.42x	1.51x	Stable

	2013	2014	2015	2016	2017	US Median
Debt and Financial Data						
Population	N/A	90,194	91,305	92,611	99,496	N/A
Available Fund Balance ($000s)	$23,091	$24,297	$24,104	$31,566	$34,646	$7,419
Net Cash Balance ($000s)	$23,611	$23,330	$23,886	$28,212	$32,113	$8,404
Operating Revenues ($000s)	$68,226	$70,224	$72,528	$78,055	$82,151	$21,930
Net Direct Debt ($000s)	$120,588	$111,875	$102,395	$109,052	$121,545	$18,580
Moody's Adjusted Net Pension Liability (3-yr average) ($000s)	$143,808	$165,172	$172,342	$178,950	$198,738	$32,507

Source: Moody's Investors Service

EXHIBIT 2

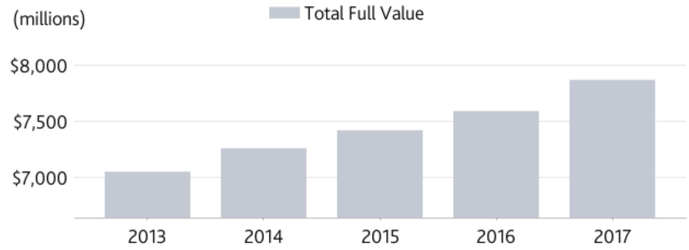
Available fund balance as a percent of operating revenues increased from 2013 to 2017



Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

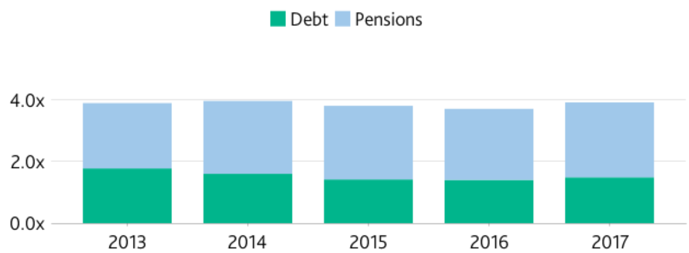
Full value of the property tax base increased from 2013 to 2017



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

1 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.

2 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.

3 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.

4 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.

5 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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