CREDIT OPINION
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City of Lawrence, KS

Update to credit analysis

Summary

The City of Lawrence, KS' (Aa1 stable) credit profile benefits from a growing economy with institutional presence coupled with maintenance of a strong financial position balanced against leverage metrics that are elevated relative to Aa peers.

Credit strengths

» Growing economy with institutional support derived from University of Kansas

» Maintenance of strong financial ratios amid growing operating revenue

» Multi-year adoption of double-digit utility rate increases supports utility enterprise

Credit challenges

» High student population driving weaker resident income and full value per capita ratios

» Elevated leverage metrics with extensive infrastructure investment planned

» Utility system has below average coverage and days cash on hand compared to peers

Rating outlook

The stable outlook reflects the expectation that continued economic expansion, utility rate increases, and formal financial policies will enable the city to maintain its strong financial position and manageable long-term liabilities while implementing a robust capital improvement plan.

Factors that could lead to an upgrade

» Continued economic expansion that results in materially improved resident income and full value per capita (issuer and GOULT)

» Long-term liabilities ratio that falls below 200% without increasing capital asset depreciation above 65% (issuer and GOULT)

» Moderation of debt or materially improved revenue resulting in leverage approaching 2x operating revenue (utility revenue)

» Trend of debt service coverage well above 2x and liquidity consistently exceeding 400 days cash on hand (utility revenue)

Factors that could lead to a downgrade

» Erosion of available fund balance and/or liquidity ratios below 35% (issuer and GOULT)

» Maintenance of long-term liabilities ratio above 350% (issuer and GOULT)

» Trend of economic contraction resulting in materially weakened full value per capita (issuer and GOULT)

» Leverage consistently well above 4x operating revenue (utility revenue)

» Trend of debt service coverage or liquidity falling below 1.5x or 300 days, respectively (utility revenue)

Key indicators

Exhibit 1

Lawrence (City of) KS

	2022	2023	2024	2025	Aa Medians
Economy					
Resident income ratio (%)	86.4%	88.0%	89.2%	N/A	111.9%
Full Value ($000)	$11,367,694	$12,493,789	$13,484,547	$14,186,140	$3,387,432
Population	95,103	95,459	96,051	N/A	22,328
Full value per capita ($)	$119,530	$130,881	$140,389	N/A	$163,193
Annual Growth in Real GDP	2.1%	1.9%	3.2%	N/A	N/A
Financial Performance					
Revenue ($000)	$239,455	$264,248	$275,809	$284,678	$58,527
Available fund balance ($000)	$106,747	$121,418	$121,910	$143,757	$32,844
Net unrestricted cash ($000)	$228,236	$217,920	$208,107	$249,296	$45,441
Available fund balance ratio (%)	44.6%	45.9%	44.2%	50.5%	57.4%
Liquidity ratio (%)	95.3%	82.5%	75.5%	87.6%	79.7%
Leverage					
Debt ($000)	$385,712	$407,403	$435,651	$520,355	$40,551
Adjusted net pension liabilities ($000)	$206,262	$192,152	$176,714	$160,119	$30,928
Adjusted net OPEB liabilities ($000)	$14,492	$17,584	$15,589	$19,426	$3,164
Other long-term liabilities ($000)	$34,352	$35,105	$40,934	$40,465	$2,015
Long-term liabilities ratio (%)	267.6%	246.8%	242.5%	260.1%	162.0%
Fixed costs					
Implied debt service ($000)	$25,637	$26,938	$28,301	$30,151	$2,685
Pension tread water contribution ($000)	$7,235	$9,405	$10,408	$10,411	$1,817
OPEB contributions ($000)	$552	$293	$592	$561	$161
Implied cost of other long-term liabilities ($000)	$861	$2,399	$2,439	$2,833	$118
Fixed-costs ratio (%)	14.3%	14.8%	15.1%	15.4%	9.8%

For definitions of the metrics in the table above please refer to the US Cities and Counties Methodology or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published US Cities and Counties Median Report.
The real GDP annual growth metric cited above is for the Lawrence, KS Metropolitan Statistical Area.
Sources: US Census Bureau, Lawrence (City of) KS's financial statements and Moody's Ratings, US Bureau of Economic Analysis

Profile

The City of Lawrence, KS is the county seat of Douglas County and home to the University of Kansas. The city performs routine municipal services and its business-type enterprises include water, sewer and sanitation utilities. The city has a population of about 100,000 residents.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

Detailed credit considerations

The city's economy will continue to benefit from the ongoing capital investment of the University of Kansas. The university's strong enrollment demand is driven by its program diversity, though enrollment growth is exacerbating the city's already constrained housing supply. Positively, this demand supports housing prices, generates additional property tax revenue and investment, and largely insulates the city from weaker full value per capita and resident income ratios.

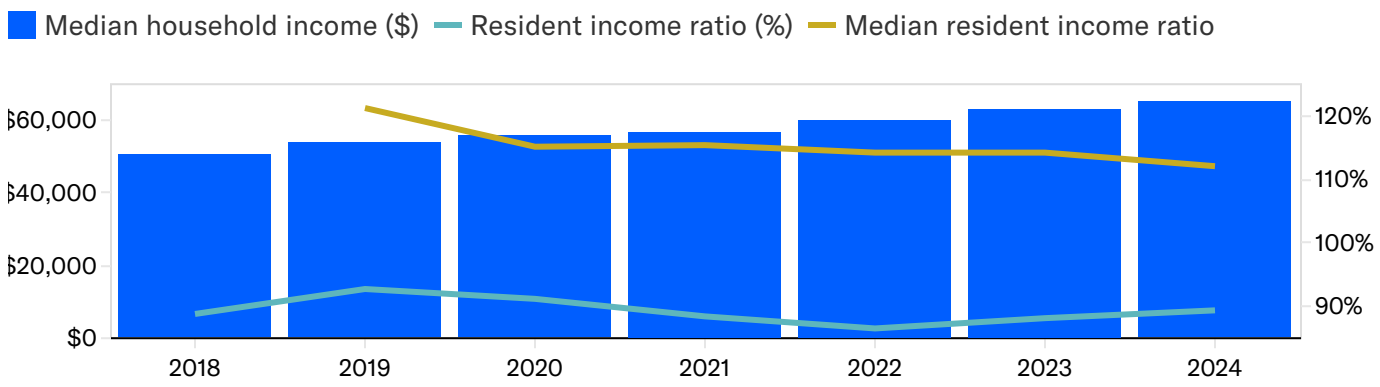
The city's growing economy and consistent trend of adopting multi-year utility rate increases are likely to maintain its strong financial position even as the material capital improvement program is implemented. Management conservatively projects operations are tracking very close to budgeted expectations, though planned capital spending could modestly reduce fund balance in the nonmajor governmental and enterprise funds. Operating reserves have exceeded 40% of revenue each of the past several years and that trend is likely to continue.

Consistent with its long-term practice, the city commission adopted a multi-year rate structure that will increase water and wastewater rates 7.9% on average through 2028. Still, material issuance over the past several years is likely to push coverage closer to 1.5x beginning in fiscal 2026. The capital improvement plan calls for $193 million of system investment through 2031, though only about 30% is currently anticipated to be debt funded.

Elevated long-term liabilities and fixed costs ratios will remain a challenge of the credit profile over the next several years given planned issuance to support the city's capital improvement plan (CIP). The plan calls for roughly $403 million of investment and anticipates roughly 60% will be funded with cash or other non-debt sources. Continued economic expansion and utility revenue growth is expected to maintain affordability and prevent leverage metrics from becoming outsized.

Exhibit 2

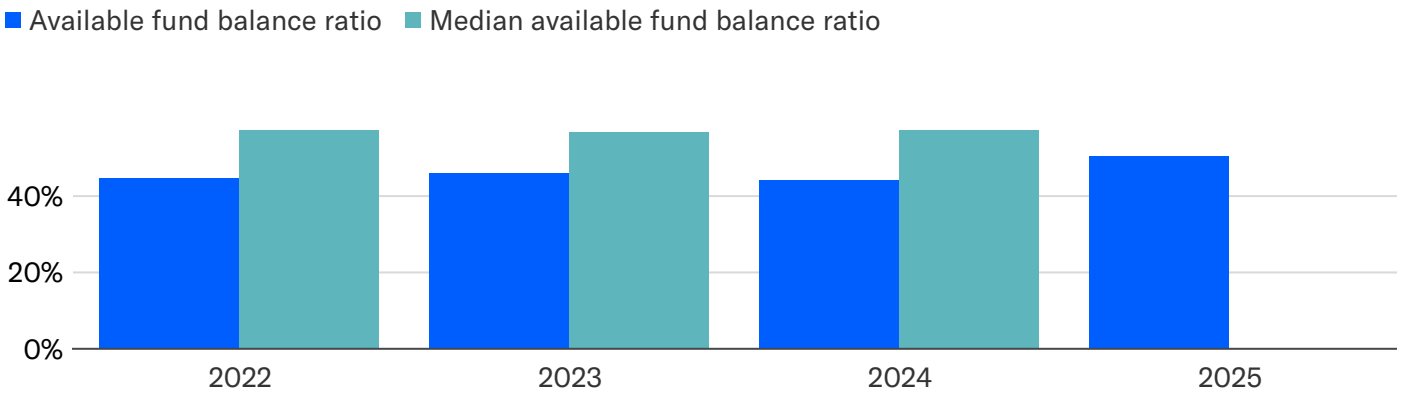
Growing institutional presence from University of Kansas mitigates lower resident income



Source: US Census Bureau - American Community Survey 5-Year Estimates; US Bureau of Economic Analysis; Moody's Ratings

Exhibit 3

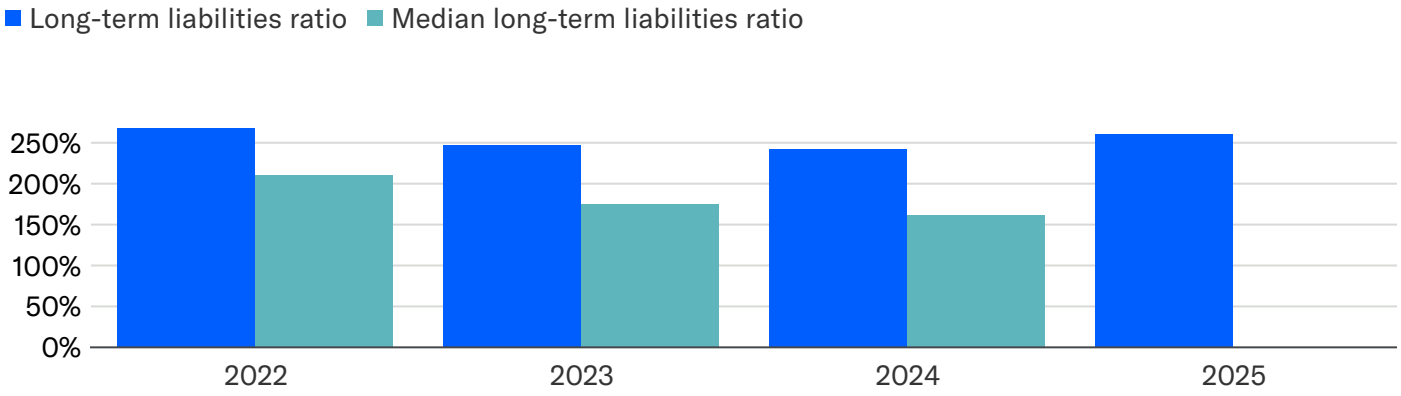
Trend of available fund balance ratio exceeding 40% likely to continue given economic growth and adoption of multi-year utility rate increases



Source: Audited financial statements; Moody's Ratings

Exhibit 4

Healthy revenue growth to maintain manageable leverage metrics

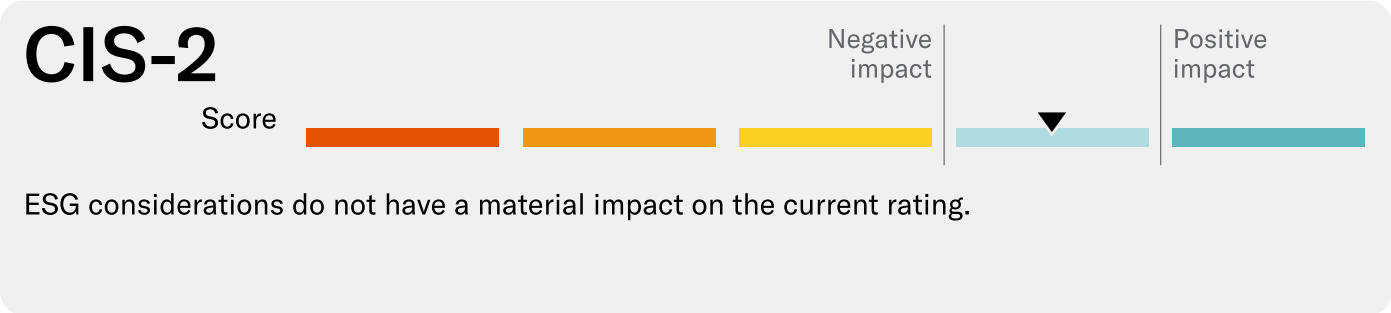


Source: Audited financial statements; Moody's Ratings

ESG considerations

Lawrence (City of) KS' ESG credit impact score is CIS-2

Exhibit 5
ESG credit impact score



Source: Moody's Ratings

Lawrence's ESG Credit Impact Score is (**CIS-2**), reflecting relatively low exposure to environmental, social and governance risks.

Exhibit 6
ESG issuer profile scores



Source: Moody's Ratings

Environmental

The city's E issuer profile score is (**E-2**), reflecting relatively low exposure to environmental risks across all categories, including physical climate, carbon transition, water management, natural capital, and waste and pollution.

Social

The city's S issuer profile score is (**S-2**), reflecting relatively low exposure to social risks across most categories. The exception is the education category, which is positive. The percentage of the city's population with a bachelor's degree is higher than most cities.

Governance

The city's G issuer profile score is (**G-2**). The institutional structure of Kansas cities is strong, and the city has good budget management. It maintains formal fund balance policies for the general fund, debt service fund, and special revenue funds. The city has adopted a multiyear strategic plan to address initiatives such as housing, infrastructure, employee compensation and economic development. Its transparency and disclosure is similar to most cities.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The US Cities and Counties Methodology includes a scorecard that summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 7

Lawrence (City of) KS

	Measure	Weight	Score
Economy			
Resident income ratio	89.2%	10.0%	A
Full value per capita	147,308	10.0%	Aa
Economic growth metric	-1.1%	10.0%	A
Financial Performance			
Available fund balance ratio	50.5%	20.0%	Aaa
Liquidity ratio	87.6%	10.0%	Aaa
Institutional Framework			
Institutional Framework	Aa	10.0%	Aa
Leverage			
Long-term liabilities ratio	260.1%	20.0%	A
Fixed-costs ratio	15.4%	10.0%	A
Notching factors			
No notchings applied			
Scorecard-Indicated Outcome			Aa2
Assigned Rating			**Aa1**

The Economic Growth metric cited above compares the five-year CAGR of real GDP for Lawrence, KS Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.
Sources: US Census Bureau, Lawrence (City of) KS's financial statements and Moody's Ratings

Appendix

Exhibit 8
Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau - American Community Survey 5-Year Estimates RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau - American Community Survey 5-Year Estimates
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
Financial performance		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
Leverage		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Ratings
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Ratings
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
Fixed costs		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Ratings
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Ratings
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Ratings
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the US Cities and Counties Methodology .
Source: Moody's Ratings

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