

PRELIMINARY OFFICIAL STATEMENT REVISED AS OF APRIL 2, 2018



**RATINGS: Fitch Ratings "AA+"
S&P Global Ratings "AA+"
See "RATINGS" herein.**

NEW ISSUES: BOOK-ENTRY-ONLY

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds (as defined below) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

**\$96,135,000*
CITY OF LUBBOCK, TEXAS
GENERAL OBLIGATION REFUNDING BONDS,
SERIES 2018**

Dated: April 15, 2018

Due August 15 and February 15: As shown on page ii

(Interest accrues from the Delivery Date)

Principal of and interest on the \$96,135,000* City of Lubbock, Texas General Obligation Refunding Bonds, Series 2018 (the "Bonds") are payable to the holders of the Bonds by The Bank of New York Mellon Trust Company, National Association, Dallas, Texas (the "Paying Agent/Registrar") to Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the Bonds (see "BOOK-ENTRY-ONLY SYSTEM"). The Bonds are initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in principal denominations of \$5,000 or integral multiples thereof within a stated maturity. **No physical delivery of the Bonds will be made to the beneficial owners thereof.**

Interest on the Bonds will accrue from the date of initial delivery to the initial purchasers listed below (the "Underwriters") and will be payable August 15, 2018 and on each February 15 and August 15 thereafter until maturity or prior redemption. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months and is payable to the registered owners (initially Cede & Co.) appearing on the registration books of the Paying Agent/Registrar on the last Business Day (defined herein) of the month preceding each interest payment date (the "Record Date") (see "THE BONDS – Description of the Bonds").

The Bonds constitute direct obligations of the City of Lubbock, Texas (the "City") payable from the proceeds of a continuing, direct annual ad valorem tax, levied within the limits prescribed by law, against all taxable property within the City. The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1207 and Chapter 1371, Texas Government Code, as amended, and an ordinance adopted by the City Council on March 22, 2018 (the "Bond Ordinance"). In the Bond Ordinance, the City Council delegated pricing of the Bonds and certain other matters to each of the Mayor, the City Manager and the Chief Financial Officer of the City (each an "Authorized Officer") who will approve the "Pricing Certificate" for the Bonds containing the final terms of sale and completing the sale of the Bonds (the Bond Ordinance and the Pricing Certificate are jointly referred to as the "Ordinance").

Proceeds from the sale of the Bonds will be used for (i) refunding certain outstanding obligations of the City (the "Refunded Obligations") for the purpose of achieving debt service savings (see "SCHEDULE I – SCHEDULE OF REFUNDED OBLIGATIONS") and (ii) paying the costs associated with the issuance of the Bonds and refunding the Refunded Obligations.

The Bonds are not subject to optional redemption prior to their scheduled maturities (see "THE BONDS – Redemption Provisions").

The Bonds are offered when, as and if issued, subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Orrick, Herrington & Sutcliffe LLP, Austin, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., Dallas, Texas (see "LEGAL MATTERS"). Delivery of the Bonds through DTC is expected to occur on or about May 1, 2018 (the "Delivery Date").

GEORGE K BAUM & COMPANY

**HUTCHINSON, SHOCKEY,
ERLEY & CO.**

J.P. MORGAN

MORGAN STANLEY

*Preliminary, subject to change.

MATURITY DATES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL OFFERING YIELDS AND CUSIPS

\$96,135,000* General Obligation Refunding Bonds, Series 2018

<u>Maturity*</u>	<u>Principal Amount*</u>	<u>Interest Rate</u>	<u>Initial Offering Yield^(a)</u>	<u>Cusip Suffix^(b)</u>	<u>Maturity*</u>	<u>Principal Amount*</u>	<u>Interest Rate</u>	<u>Initial Offering Yield^(a)</u>	<u>Cusip Suffix^(b)</u>
8/15/2018	\$ 625,000	%	%		2/15/2025	\$7,990,000	%	%	
2/15/2019	6,315,000				2/15/2026	8,390,000			
2/15/2020	6,535,000				2/15/2027	8,805,000			
2/15/2021	6,575,000				2/15/2028	9,240,000			
2/15/2022	6,905,000				2/15/2029	9,705,000			
2/15/2023	7,255,000				2/15/2030	10,185,000			
2/15/2024	7,610,000								

(Interest to accrue from Delivery Date)

* Preliminary, subject to change.

^(a) The initial offering yields will be established by and are the sole responsibility of the Underwriters, and may subsequently be changed.^(b) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services (“CGS”), managed on behalf of the American Bankers Association by S&P Global Market Intelligence. This data is included solely for the convenience of the registered owners of the Obligations, is not intended to create a database and does not serve in any way as a substitute for the services provided by CGS. None of the City, the Financial Advisor, nor the Underwriters are responsible for the selection or correctness of the CUSIP numbers set forth herein.

Concurrent Issues... The Bonds are being offered by the City concurrently with two other series of public securities of the City, its Tax and Waterworks System Surplus Revenue Certificates of Obligation, Series 2018A (the “2018A Certificates”) and Tax and Waterworks System Surplus Revenue Certificates of Obligation, Taxable Series 2018B (the “2018B Certificates”) and collectively with the 2018A Certificates, the “Certificates”) but pursuant to a separate offering document. Each series of the Certificates and the Bonds are separate and distinct securities offerings being issued and sold independently, and, while the Certificates and the Bonds share certain common attributes, each series is separate from the other and should be reviewed and analyzed independently, including, without limitation, the type of obligation being offered, its terms for payment, the security for its payment, the treatment of interest for federal income tax purposes, and the rights of the holders. Initial delivery of the Bonds and both series of Certificates through the facilities of DTC is expected to occur on or about May 1, 2018.

USE OF INFORMATION IN OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, this document may be treated as an Official Statement of the City with respect to the Bonds described herein that has been “deemed final” by the City as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

No dealer, broker, salesman or other person has been authorized by the City to give any information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City.

This Official Statement is not to be used in an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

This Official Statement, which includes Schedule I and the Appendices hereto, contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion or as to the likelihood that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the condition of the City or other matters described herein since the date hereof. See “CONTINUING DISCLOSURE OF INFORMATION” for a description of the City’s undertaking to provide certain information on a continuing basis.

The information set forth or included in this Official Statement has been provided by the City and by other sources believed by the City to be reliable. None of the City, its Financial Advisor, nor the Underwriters make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company (“DTC”) or its book-entry-only system herein, as such information has been provided by DTC.

IN CONNECTION WITH THE OFFERING, THE UNDERWRITER MAY OVER ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

THE COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY AND IS NOT INTENDED AS A SUMMARY OF THESE OFFERINGS. INVESTORS SHOULD READ THIS ENTIRE OFFICIAL STATEMENT, INCLUDING THE ATTACHED SCHEDULE AND APPENDICES, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACT. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAW OF THE STATES IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF.

THIS OFFICIAL STATEMENT CONTAINS “FORWARD-LOOKING” STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS. SEE “FORWARD-LOOKING STATEMENTS.”

TABLE OF CONTENTS

<u>Page</u>	<u>Page</u>
OFFICIAL STATEMENT SUMMARY	v
INTRODUCTION	1
DESCRIPTION OF THE CITY	1
THE BONDS	1
Description of the Bonds	1
Purpose	2
Refunded Obligations	2
Authority for Issuance	2
Security and Source of Payment	2
Tax Rate Limitation	2
Redemption Provisions	2
Amendments	3
Defeasance	3
Paying Agent/Registrar	3
Registration, Transfer and Exchange	4
Record Date for Interest Payment	4
Concurrent Issues	4
BOOK-ENTRY-ONLY SYSTEM	4
Use of Certain Terms in Other Sections of this Official Statement	6
REMEDIES	6
SOURCES AND USES OF PROCEEDS	7
AD VALOREM TAX INFORMATION	7
Ad Valorem Tax Law	7
Effective Tax Rate and Rollback Tax Rate	9
Property Assessment and Tax Payment	9
Penalties and Interest	10
City Application of Tax Code	10
Tax Abatement Policies	10
Tax Increment Financing Zones	11
FINANCIAL POLICIES	11
Policies	11
Administration	13
Retirement Plans	14
Other Post-Employment Benefits	14
INVESTMENTS	15
Legal Investments	15
Investment Policies	16
Additional Provisions	16
The City's Investment Policy and Investment Strategy	16
TAX MATTERS	17
National Association of Bond Lawyers Letter	19
RATINGS	19
LITIGATION	19
REGISTRATION AND QUALIFICATION OF THE BONDS FOR SALE	19
LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS	19
LEGAL MATTERS	20
CONTINUING DISCLOSURE OF INFORMATION	20
Annual Reports	20
Notice of Certain Events	20
Availability of Information	21
Limitations and Amendments	21
Compliance with Prior Undertakings	21
VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS	21
FINANCIAL ADVISOR	22
UNDERWRITING	22
FORWARD-LOOKING STATEMENTS	22
MISCELLANEOUS	23
 SCHEDULE I – SCHEDULE OF REFUNDED OBLIGATIONS	
 <u>APPENDICES</u>	
 APPENDIX A – FINANCIAL INFORMATION REGARDING THE CITY	
 APPENDIX B - EXCERPTS FROM ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED SEPTEMBER 30, 2017	
 APPENDIX C - FORM OF BOND COUNSEL OPINION	
 <i>The cover page hereof, the section entitled “Official Statement Summary,” this Table of Contents, Schedule I and Appendices A, B and C attached hereto are part of this Official Statement.</i>	

OFFICIAL STATEMENT SUMMARY

This summary is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

THE CITY..... The City of Lubbock, Texas (the “City”) is a political subdivision and municipal corporation of the State of Texas, located in Lubbock County, Texas. The City covers approximately 129.0 square miles and has a current estimated population of 254,565 (see “DESCRIPTION OF THE CITY”).

THE BONDS..... The City’s \$96,135,000* General Obligation Refunding Bonds, Series 2018 (the “Bonds”) are dated April 15, 2018 and mature on August 15, 2018 and on February 15, in each of the years 2019 through 2030*, inclusive, as shown on page ii. Interest on the Bonds accrues from their date of initial delivery (the “Delivery Date”) and will be payable on August 15, 2018 and each February 15 and August 15 thereafter until maturity (see “THE BONDS – Description of the Bonds”).

The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1207 and Chapter 1371, Texas Government Code, as amended, and an ordinance adopted by the City Council on March 22, 2018 (the “Bond Ordinance”). In the Bond Ordinance, the City Council delegated pricing of the Bonds and certain other matters to each of the Mayor, the City Manager and the Chief Financial Officer of the City (each an “Authorized Officer”) who will approve the “Pricing Certificate” for the Bonds containing the final terms of sale and completing the sale of the Bonds (the Bond Ordinance and the Pricing Certificate are jointly referred to as the “Ordinance”).

The Bonds constitute direct obligations of the City payable from the proceeds of a continuing, direct annual ad valorem tax, levied within the limits prescribed by law, against all taxable property within the City.

REDEMPTION PROVISIONS*.... The Bonds are **not** subject to optional redemption prior to their stated maturity (see “THE BONDS – Redemption Provisions”).

USE OF PROCEEDS..... Proceeds from the sale of the Bonds will be used for (i) refunding certain outstanding obligations of the City (the “Refunded Obligations”) for the purpose of achieving debt service savings (see “SCHEDULE I – SCHEDULE OF REFUNDED OBLIGATIONS”) and (ii) paying the costs associated with the issuance of the Bonds and refunding the Refunded Obligations.

RATINGS..... The Bonds are rated “AA+” by S&P Global Ratings, a Standard and Poor’s Financial Services LLC business, and “AA+” by Fitch Ratings (see “RATINGS”).

TAX MATTERS..... In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See “TAX MATTERS” herein.

BOOK-ENTRY-ONLY

SYSTEM..... The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in principal denominations of \$5,000 or integral multiples thereof within a stated maturity. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “BOOK-ENTRY-ONLY SYSTEM”).

* Preliminary, subject to change.

CONTINUING DISCLOSURE OF INFORMATION	Pursuant to the Ordinance, the City is obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events to the Municipal Securities Rulemaking Board (the “MSRB”). Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org (see “CONTINUING DISCLOSURE OF INFORMATION”).
PAYMENT RECORD	The City has never defaulted in payment of its tax-supported debt.
LEGAL OPINION	Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by Orrick, Herrington & Sutcliffe LLP, Austin, Texas, Bond Counsel.
DELIVERY	Initial delivery of the Bonds through the facilities of DTC is expected to occur on or about May 1, 2018.
CONCURRENT ISSUES	The Bonds are being offered by the City concurrently with two other series of public securities of the City, its Tax and Waterworks System Surplus Revenue Certificates of Obligation, Series 2018A (the “2018A Certificates”) and Tax and Waterworks System Surplus Revenue Certificates of Obligation, Taxable Series 2018B (the “2018B Certificates”, and collectively with the 2018A Certificates, the “Certificates”). The Certificates are being offered under a separate Official Statement. Each series of the Certificates and the Bonds are separate and distinct securities offerings being issued and sold independently, and, while the Certificates and the Bonds share certain common attributes, each series is separate from the other and should be reviewed and analyzed independently, including, without limitation, the type of obligation being offered, its terms for payment, the security for its payment, the treatment of interest for federal income tax purposes, and the rights of the holders. Initial delivery of the Bonds and both series of the Certificates through the facilities of DTC is expected to occur on or about May 1, 2018.

SELECTED FINANCIAL DATA

Fiscal Year Ended	City Population^(a)	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	General Purpose Funded Tax Debt^(b)	Per Capita General Purpose Funded Tax Debt	Ratio Tax Debt to Assessed Valuation	% of Total Tax Collections	Tax Year
2013	233,605	\$13,100,207,908	57,943	\$128,980,078	\$552.13	0.95%	99.7%	2012
2014	236,262	13,535,673,257	59,871	130,319,182	551.59	0.92%	99.7%	2013
2015	239,992	14,183,510,930	59,100	147,880,829	616.19	1.04%	99.5%	2014
2016	244,861	15,016,866,207	61,328	193,985,333	792.23	1.29%	98.7%	2015
2017	249,042	16,072,987,520	64,539	197,738,739	794.00	1.23%	98.9%	2016
2018	254,565	17,041,610,175	66,944	191,271,455 ^(d)	751.38 ^(d)	1.12% ^(d)	58.6% ^(e)	2017

^(a) Source: Population estimates as provided by the City based on U.S. Census Bureau data.

^(b) Taxable Assessed Valuation reflects certified value and does not include subsequent revisions by Lubbock Central Appraisal District.

^(c) Does not include self-supporting debt. See "Appendix A – Financial Information Regarding the City – Table 1 – Valuation, Exemptions and General Obligation Debt", "– Table 3B – Derivation of General Purpose Funded Tax Debt" and "– Table 11 – Computation of Self-Supporting Debt.

^(d) Projected. Includes the Bonds. Excludes the Refunded Obligations. The self-supporting debt detail has not been revised to reflect adjustment in debt allocation between enterprise revenue fund supported debt service and tax supported debt service for the Refunded Obligations or the Bonds. Includes the portion of the Certificates that is not anticipated to be self-supporting and payable from revenues from the enterprise funds related to the improvements financed with proceeds of the Certificates. Preliminary, subject to change.

^(e) Partial collections as of January 31, 2018.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	2017	2016	2015	2014	2013
Beginning Balance	\$ 35,673,526	\$ 39,190,493	\$ 30,610,816	\$ 33,836,633	\$ 28,161,445
Total Revenues	138,459,552	135,738,143	133,290,381	123,222,202	120,423,960
Total Expenditures	168,011,721	162,139,351	154,063,434	151,519,040	144,907,786
Capital Leases & Transfers In/(Out)	33,508,174	22,884,241	29,352,730	25,071,021	30,159,014
Ending Balance	39,629,531	35,673,526	39,190,493	30,610,816	33,836,633
Less: Assigned/Nonspendable	(119,300)	(107,770)	(118,303)	(1,359,325)	(115,585)
Unassigned Fund Balance	\$ 39,510,231	\$ 35,565,756	\$ 39,072,190	\$ 29,251,491	\$ 33,721,048

For additional information regarding the City, please contact:

Blu Kostelich
Chief Financial Officer
City of Lubbock
P.O. Box 2000
Lubbock, Texas 79547
Phone (806) 775-2212
Fax (806) 775-2051

Matthew Boles
RBC Capital Markets, LLC
200 Crescent Court, Suite 1500
Dallas, Texas 75201
Phone (214) 989-1660
Fax (214) 989-1650

[The remainder of this page left intentionally blank.]

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>City Council</u>	<u>Position</u>	<u>Date of Installation of Office</u>	<u>Term Expires</u>	<u>Occupation</u>
Daniel Pope	Mayor	May 2016	May 2018*	Business Owner
Latrelle Joy	Mayor Pro Tem, District 6	May 2012	May 2020	Attorney
Juan Chadis	Council Member, District 1	June 2016	May 2018*	Retired
Shelia Patterson Harris	Council Member, District 2	June 2016	May 2020	Retired
Jeff Griffith	Council Member, District 3	June 2014	May 2018*	Business Owner
Steve Massengale	Council Member, District 4	May 2016	May 2020	Business Owner
Karen Gibson	Council Member, District 5	May 2010	May 2018*	Business Owner

*The election for City Officials is scheduled to occur on May 8, 2018. Newly elected officials will be sworn in as soon as the election results are canvassed.

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Date of Employment in Current Position</u>	<u>Date of Initial Employment with City of Lubbock</u>	<u>Total Years of Government Service</u>
W. Jarrett Atkinson	City Manager	December 2016	December 2016	23
D. Blu Kostelich	Chief Financial Officer	July 2017	July 2017	2
Cheryl Brock	Exec. Dir. of Budget	March 2012	April 1992	26
Scott Snider	Assistant City Manager	July 2006	September 1980	40
Mark Yearwood	Assistant City Manager	September 2006	July 1993	27
Bill Howerton	Assistant City Manager	June 2014	August 1998	19
Chad Weaver	City Attorney	May 2014	June 2008	24
Rebecca Garza	City Secretary	January 2001	August 1996	21
Kevin Rule	Debt & Investment Analyst	March 2014	March 2014	4

CONSULTANTS AND ADVISORS

Auditors	BKD, LLP Dallas, Texas
Bond Counsel	Orrick, Herrington & Sutcliffe LLP Austin, Texas
Financial Advisor	RBC Capital Markets, LLC Dallas, Texas

**PRELIMINARY OFFICIAL STATEMENT
RELATING TO
CITY OF LUBBOCK, TEXAS
\$96,135,000* GENERAL OBLIGATION REFUNDING BONDS, SERIES 2018**

INTRODUCTION

This Official Statement, which includes Schedule I and the Appendices hereto, provides certain information regarding the issuance by the City of Lubbock, Texas (the “City”) of its \$96,135,000* General Obligation Refunding Bonds, Series 2018 (the “Bonds”). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Ordinance (hereinafter defined) except as otherwise indicated herein.

All financial and other information presented in this Official Statement has been provided by the City from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as is shown by that financial and other information, will necessarily continue or be repeated in the future (see “FORWARD-LOOKING STATEMENTS”).

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader’s convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City’s Financial Advisor, RBC Capital Markets, LLC, Dallas, Texas.

DESCRIPTION OF THE CITY

The City is a political subdivision and municipal corporation of the State of Texas (the “State”), duly organized and existing under the laws of the State, including the City’s Home Rule Charter. The City was incorporated in 1909, and first adopted its Home Rule Charter in 1917. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six council members. The Mayor is elected at-large for a two-year term ending in an even-numbered year. Each of the six members of the City Council is elected from a single-member district for a four-year term of office. The terms of three members of the City Council expire in each even-numbered year. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, electric, water and sanitary sewer utilities, airport, sanitation and solid waste disposal, health and social services, culture-recreation, public transportation, public improvements, planning and zoning, and general administrative services. The 2010 Census population for the City was 229,573 and the current estimated population is 254,565. The City covers approximately 129.0 square miles.

THE BONDS

Description of the Bonds

The Bonds are dated April 15, 2018 and mature on August 15, 2018 and on February 15, in each of the years, and in the amounts, shown on page ii. Interest on the Bonds accrues from their Delivery Date and will be payable on August 15, 2018 and each February 15 and August 15 thereafter until maturity.

Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months.

The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) New York, New York pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by The Bank of New York Mellon Trust Company, National Association (the “Paying Agent/Registrar”) to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “BOOK-ENTRY-ONLY SYSTEM”).

*Preliminary, subject to change.

Purpose

Proceeds from the sale of the Bonds will be used to: (i) refund certain outstanding obligations of the City (the “Refunded Obligations”) for the purpose of achieving debt service savings (see “SCHEDULE I – SCHEDULE OF REFUNDED OBLIGATIONS”) and (ii) pay the costs associated with the issuance of the Bonds and refunding the Refunded Obligations.

The Refunded Obligations were issued as direct pay subsidy “Build America Bonds” under the Code. The City has covenanted in the Ordinance that upon the delivery of the Bonds, the City will not request nor accept direct pay subsidy payments from the United States Treasury in support of the payment of debt service on the Refunded Obligations prior to the date fixed for their redemption (see “SCHEDULE I – SCHEDULE OF REFUNDED OBLIGATIONS”).

Refunded Obligations

A description and identification of the Refunded Obligations appears in Schedule I attached hereto. The Refunded Obligations and the interest due thereon are to be paid on their respective interest payment dates and redemption dates from funds to be deposited with The Bank of New York Mellon Trust Company, National Association, Dallas, Texas (the “Escrow Agent”) pursuant to the Escrow Agreement (the “Escrow Agreement”) between the City and the Escrow Agent.

The Bond Ordinance provides that from the proceeds of the sale of the Bonds to the Underwriters and any additional moneys contributed by the City, the City will deposit with the Escrow Agent an amount, which, when added to the investment earnings thereon, will be sufficient to accomplish the discharge and final payment of the Refunded Obligations. Such funds will be held by the Escrow Agent in one or more escrow accounts (the “Escrow Fund”) and used to purchase some or all of the following investment securities: (a) direct noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States, (b) certain noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the City adopts the Ordinance, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent and (c) certain noncallable obligations of a state or an agency or a county, municipality or other political subdivision of a state that have been refunded and that, on the date the City adopts the Bond Ordinance, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent (the “Escrowed Securities”). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Obligations.

By the deposit of the Escrowed Securities and cash, if any, with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of the Refunded Obligations pursuant to the terms of Chapter 1207, Texas Government Code, as amended, and the ordinances authorizing the issuance of the Refunded Obligations. It is the opinion of Bond Counsel that as a result of such defeasance, and in reliance upon the report of Grant Thornton LLP, firm banking and financial arrangements for the discharge and final payment of the Refunded Obligations will have been made and therefore the Refunded Obligations will be deemed fully paid and no longer outstanding except for the purpose of receiving payments from the Escrowed Securities and cash held for such purpose by the Escrow Agent (see “VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS”).

Authority for Issuance

The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1207 and Chapter 1371, Texas Government Code, as amended, and an ordinance adopted by the City Council on March 22, 2018 (the “Bond Ordinance”). In the Bond Ordinance, the City Council delegated pricing of the Bonds and certain other matters to each of the Mayor, the City Manager and the Chief Financial Officer of the City (each an “Authorized Officer”) who will approve the “Pricing Certificate” for the Bonds containing the final terms of sale and completing the sale of the Bonds (the Bond Ordinance and the Pricing Certificate are jointly referred to as the “Ordinance”).

Security and Source of Payment

The Bonds constitute direct obligations of the City payable from the proceeds of a continuing, direct annual ad valorem tax, levied within the limits prescribed by law, against all taxable property within the City.

Tax Rate Limitation

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits the City’s maximum ad valorem tax rate to \$2.50 per \$100 taxable assessed valuation for all City purposes. The Home Rule Charter of the City adopts the constitutionally authorized maximum tax rate of \$2.50 per \$100 taxable assessed valuation. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all general obligation debt service, as calculated at the time of issuance.

Redemption Provisions

The Bonds are not subject to optional redemption prior to their stated maturity date.

Amendments

The City may, without consent of or notice to any owners, from time to time and at any time, amend the Ordinance in any manner not detrimental to the interests of the owners, including the curing of any ambiguity, inconsistency, or formal defect or omission herein. In addition, the City may, with the written consent of the owners of the Bonds holding a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Ordinance relating to such series of Bonds; provided that, without the consent of all owners of outstanding Bonds, no such amendment, addition, or rescission shall (i) extend the time or times of payment of the principal of, premium, if any, and interest on the Bonds, reduce the principal amount thereof, the redemption price, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, or interest on the Bonds, (ii) give any preference to any Bonds over any other Bonds, or (iii) reduce the aggregate principal amount of Bonds required to be held by owners for consent to any such amendment, addition, or rescission.

Defeasance

The Ordinance provides that the City may discharge its obligations to the registered owners of any or all of the Bonds of the applicable series to pay principal, interest and redemption price thereon in any matter permitted by applicable law. Under current Texas law, such discharge may be accomplished by either (i) depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to principal, premium, if any, and all interest to accrue on the Bonds to maturity or redemption and/or (ii) depositing with a paying agent or other authorized escrow agent amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the City adopts the Ordinance authorizing the refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, or (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the City adopts the ordinance authorizing the refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The foregoing obligations may be in book-entry-only form, and shall mature and/or bear interest in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds. If any such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Ordinance.

Under current Texas law, upon the making of a deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the City to initiate proceedings to call the Bonds for redemption or to take any other action amending the terms of the Bonds are extinguished; provided, however, the right to call the Bonds for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Ordinance does not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. In addition, there is no assurance that the rating(s) of securities used to fund a defeasance escrow will be maintained at any particular rating category.

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Bonds is The Bank of New York Mellon Trust Company, National Association, Dallas, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank, trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds then outstanding and affected by such change by United States mail, first class, postage prepaid, which notice shall give the address of the new Paying Agent/Registrar.

Interest on the Bonds shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest shall be paid (i) by check sent United States mail, first class, postage prepaid, to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar, or (ii) by such other method acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Bonds will be paid to the registered owner at the stated maturity or earlier redemption upon presentation to the designated payment/transfer office of the Paying Agent/Registrar in Dallas, Texas (the "Designated Payment/Transfer Office"). If the date for the payment of the principal of, or interest on, the Bonds shall be a day other than a Business Day then the date for such

payment shall be the next succeeding Business Day and payment on such date shall have the same force and effect as if made on the date payment was due. So long as Cede & Co. is the registered owner of the Bonds, principal and interest on the Bonds will be made as described in "BOOK-ENTRY-ONLY SYSTEM".

Registration, Transfer and Exchange

So long as Bonds remain outstanding, the City shall cause the Paying Agent/Registrar to keep at the Designated Payment/Transfer Office a register (the "Register") in which, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Bonds in accordance with the Ordinance. The ownership of a Bond may be transferred only upon the presentation and surrender of the Bond at the Designated Payment/Transfer Office with such endorsement or other evidence of transfer as is acceptable to the Paying Agent/Registrar. No transfer of any Bond shall be effective until entered in the Register. The Bonds shall be exchangeable upon the presentation and surrender thereof at the Designated Payment/Transfer Office for a Bond or Bonds of the same maturity and interest rate and in any denomination or denominations of any integral multiple of \$5,000 and in an aggregate principal amount equal to the unpaid principal amount of the Bonds presented for exchange. The Paying Agent/Registrar shall authenticate and deliver Bonds exchanged for other Bonds in accordance with the Ordinance. Each exchange Bond delivered by the Paying Agent/Registrar in accordance with the Ordinance shall constitute an original contractual obligation of the City and shall be entitled to the benefits and security of the Ordinance to the same extent as the Bond or Bonds in lieu of which such exchange Bond is delivered. No service charge shall be made to the Owner for the initial registration, subsequent transfer, or exchange for any different denomination of any of the Bonds. The Paying Agent/Registrar, however, may require the Owner to pay a sum sufficient to cover any tax or other governmental charge that is authorized to be imposed in connection with the registration, transfer or exchange of a Bond.

Record Date for Interest Payment

The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the close of business on the last Business Day of the preceding month. The term "Business Day" means any day other than a Saturday, Sunday or legal holiday or other day on which banking institutions in the city where the Designated Payment/Transfer Office is located are required or authorized by law or executive order to close.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five Business Days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each Holder of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last Business Day next preceding the date of mailing of such notice.

Concurrent Issues

The Bonds are being offered by the City concurrently with two other series of public securities of the City, its Tax and Waterworks System Surplus Revenue Certificates of Obligation, Series 2018A (the "2018A Certificates") and Tax and Waterworks System Surplus Revenue Certificates of Obligation, Taxable Series 2018B (the "2018B Certificates", and collectively with the 2018A Certificates, the "Certificates") but pursuant to a separate offering document. Each of the Certificates and the Bonds are separate and distinct securities offerings being issued and sold independently, and, while the Certificates and the Bonds share certain common attributes, each series is separate from the other and should be reviewed and analyzed independently, including, without limitation, the type of obligation being offered, its terms for payment, the security for its payment, the treatment of interest for federal income tax purposes, and the rights of the holders. The Certificates are secured by a pledge of surplus net revenues of the City's Waterworks System, in an amount not to exceed \$1,000. The Bonds are not so secured. Initial delivery of the Bonds and both series of Certificates through the facilities of DTC is expected to occur on or about May 1, 2018.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City, the Financial Advisor, and the Underwriters each believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC, New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security will be issued for each maturity of Bonds, as set forth on page ii hereof, each in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its registered subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). Direct Participants and Indirect Participants are referred to collectively as the "Participants." DTC has a Standard & Poor's rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption, principal, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, security certificates for each maturity of the Bonds are required to be printed and delivered. The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, security certificates for each maturity of the Bonds will be printed and delivered and the Bonds will be subject the transfer, exchange and registration provisions as set forth in the respective Ordinance and summarized under “THE BONDS – Registration, Transfer and Exchange”.

The information in this section concerning DTC and DTC’s book-entry system has been obtained from sources that the City, the Financial Advisor, and the Underwriters believe to be reliable, but none of the City, the Financial Advisor, nor the Underwriters take responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, payment or notices that are to be given to registered owners under each respective Ordinance will be given only to DTC.

REMEDIES

The Ordinance establishes specific events of default with respect to the Bonds. If the City defaults in the payment of principal of, or interest on, the Bonds when due, or if the City defaults in the observance or performance of any of the covenants, conditions or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, the Ordinance provides that any owner is entitled to seek a writ of mandamus from a court of competent jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Ordinance and the City’s obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interests of the owners upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition. Accordingly, all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex.2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language. In so ruling, the Court declared that statutory language such as “sue and be sued,” in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. Because it is not clear that the Texas Legislature has effectively waived the City’s immunity from suit for money damages, holders of Bonds may not be able to bring such a suit against the City for breach of the Bond or the respective Ordinance. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the “Local Government Immunity Waiver Act”), which, according to the Court, waives “immunity from suit for contract claims against most local governmental entities in certain circumstances.” The Local Government Immunity Waiver Act covers cities and relates to contracts entered into by cities for providing goods or services to cities. On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W. 3d 427 (Tex. 2016) that sovereign immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. In its decision, the Court held that since the Local Government Immunity Waiver Act waives governmental immunity in certain breach of contract claims without addressing whether the waiver applies to a governmental function or a proprietary function of a city, the Court could not reasonably read the Local Government Immunity Waiver Act to evidence legislative intent to waive immunity when a city performs a proprietary function.

As noted above, the Ordinance provides that holders of Bonds may exercise the remedy of mandamus to enforce the obligations of the City under the Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract). The City, in part, is relying on authority granted to the City by Chapter 1371, Texas Government Code, in effecting the sale of the Bonds. Chapter 1371 permits the City to waive sovereign immunity in the proceedings authorizing its bonds, but in connection with the issuance of the Bonds, the City has not waived sovereign immunity in the manner provided by Chapter 1371.

Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City’s property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of, and interest on, the Bonds. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or registered owners of an entity that has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before the Court. The opinions of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and that all opinions relative to the enforceability of the Ordinance and the Bonds are subject to bankruptcy and other laws affecting creditors’ rights or remedies generally.

SOURCES AND USES OF PROCEEDS

The proceeds from the sale of the Bonds, together with other lawfully available funds of the City, if needed, will be applied as follows:

Sources of Proceeds:	
Principal Amount	\$
Net Original Issue Premium (Discount)	
City Contribution	
Total Sources of Proceeds	\$
Uses of Proceeds:	
Deposit to Escrow Fund	\$
Underwriters’ Discount	
Costs of Issuance	
Total Uses of Proceeds	\$

AD VALOREM TAX INFORMATION

Ad Valorem Tax Law

The appraisal of property within the City is the responsibility of the Lubbock Central Appraisal District (the “Appraisal District”). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Property Tax Code (defined below) to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal, and the market data comparison method of appraisal. The method considered most appropriate by the chief appraiser is to be used. State law requires the appraised value of a residence homestead to be based solely on the property’s value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the property’s market value in the most recent tax year in which the market value was determined by the Appraisal District or (2) the sum of (a) 10% of the property’s appraised value for the preceding tax year, (b) the appraised value of the property for the preceding tax year and (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board (the “Appraisal Review Board”) consisting of three members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

Reference is made to Title I of the Texas Tax Code (the “Property Tax Code”) for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Article VIII of the State Constitution (“Article VIII”) and State law provide for certain exemptions from property taxes, the valuation of agricultural and open-space lands at productivity value, and the exemption of certain personal property from ad valorem taxation.

Under Article VIII, Section 1-b, and State law, the governing body of a political subdivision, at its option, may grant an exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision. Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case

of a decrease, the amount of the exemption may not be reduced to less than \$3,000 of the market value. Homeowners who turn 65 during a tax year qualify immediately for the over-65 homestead exemption.

The surviving spouse of an individual who qualifies for the foregoing exemption for the residence homestead of a person 65 or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse.

In addition to any other exemptions provided by the Property Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of \$5,000. A political subdivision which granted this optional homestead exemption for the 2014 tax year may not reduce the amount of or repeal the exemption for the period running through December 31, 2019.

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created.

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse (for so long as the surviving spouse remains unmarried) or children (under the age of 18) of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a maximum of \$12,000; provided, however, that beginning in the 2009 tax year, a disabled veteran who receives from the U.S. Department of Veteran Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled an exemption from taxation of the total appraised value of the veterans residence homestead.

Under Article VIII and State law, the governing body of a county, municipality, or junior college district, may provide that the total amount of ad valorem taxes levied on the residence homestead of a disabled person or persons 65 years of age or older will not be increased above the amount of taxes imposed in the year such residence qualified for such limitation. Also, upon receipt of a petition signed by 5% of the registered voters of the county, municipality or junior college district, an election must be held to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of persons 65 years of age or older or of persons who are disabled. Upon providing for such exemption, such freeze on ad valorem taxes is transferable to a different residence homestead within the taxing unit and to a surviving spouse living in such homestead who is disabled or who is at least 55 years of age. If improvements (other than maintenance or repairs) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Once established, the tax rate limitation may not be repealed or rescinded. The City has established such a limitation on ad valorem taxes.

Article VIII provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Section 1-d and Section 1-d-1.

Nonbusiness personal property, such as automobiles or light trucks, is exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax such property. Boats owned as nonbusiness property are exempt from ad valorem taxation. State law additionally provides for one motor vehicle owned by an individual and used in the course of the owner's occupation or profession, and for personal activities of the owner, to be exempted from ad valorem taxation.

Article VIII, Section 1-j, provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property.

Article VIII, Section 1-n provides for an exemption from ad valorem taxation for "goods-in-transit", which are defined as personal property (i) acquired or imported into Texas and transported to another location in the State or outside the State, (ii) stored under a contract for bailment in public warehouses not in any way owned or controlled by the owner of the stored goods and (iii) transported to another location in the State or outside the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. Pursuant to changes enacted in 2011, all taxing units, including those that have previously taken official action to tax goods-in-transit, may not tax goods-in-transit in the 2012 tax year or thereafter, unless the governing body of the taxing unit holds a public hearing and takes action on or after October 2011 to provide for the taxation of the goods-in-transit. After holding the public hearing, the taxing unit may take official action prior to January 1 of the first tax year in which the governing body proposes to tax goods-in-transit. After taking official action, the goods-in-transit remain subject to taxation by the taxing unit until the governing body rescinds or repeals its previous action to tax goods-in-transit. If, however, a taxing unit took official action prior to October 1, 2011, to tax goods-in-transit and pledged the taxes imposed on goods-in-transit until the debt is discharged, the tax remains effective if cessation of the imposition of the tax would impair the obligation of the

contract by which the debt was created. A taxpayer may receive only one of the freeport exemptions or the goods-in-transit exemptions for items of personal property.

The City may create one or more tax increment financing zones under which the tax values on property in the zone are “frozen” at the value of the property at the time of creation of the zone. Other overlapping taxing units may agree to contribute all or part of future ad valorem taxes levied and collected against the value of property in the zone in excess of the “frozen value” to pay or finance the costs of certain public improvements in the zone. Taxes levied by the City against the values of real property in the zone in excess of the “frozen value” are not available for general city use but are restricted to paying or financing “project costs” within the zone (see “Tax Increment Financing Zones” below).

The City also may enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The City in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement may last for a period of up to 10 years (see “Tax Abatement Policies” below).

The City is also authorized, pursuant to Chapter 380, Texas Local Government Code (“Chapter 380”) to establish programs to promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grant of public funds for economic development purposes, however, no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City.

Effective Tax Rate and Rollback Tax Rate

The City Council is required to adopt the annual tax rate for the City before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the City. If the City Council does not adopt a tax rate by such required date, the tax rate for that tax year is the lower of the “effective tax rate” calculated for that tax year or the tax rate adopted by the City for the preceding tax year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Under the Property Tax Code, the City must annually calculate and publicize its “effective tax rate” and “rollback tax rate”. A tax rate cannot be adopted by the City Council that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings are held on the proposed tax rate following a notice of such public hearing (including the requirement that notice be posted on the City’s website if the City owns, operates, or controls an internet website, and that public notice be given by television if the City has free access to a television channel), and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. If the adopted tax rate exceeds the rollback tax rate, the qualified voters of the City, by petition, may require that an election be held to determine whether or not to reduce the tax rate, adopted for the current year, to the rollback tax rate.

“Effective tax rate” is defined as the rate that will produce the preceding year’s total tax levy (adjusted) from the current year’s total taxable values (adjusted). “Adjusted” means lost values are not included in the calculation of last year’s taxes and new values are not included in this year’s taxable values.

“Rollback tax rate” is defined as the rate that will produce the preceding year’s maintenance and operation tax levy (adjusted) from the current year’s values (adjusted) multiplied by 1.08 plus a rate that will produce the current year’s debt service from the current year’s values (unadjusted) divided by the anticipated tax collection rate.

The Property Tax Code provides that certain cities and counties in the State may submit a proposition to the voters to authorize an additional one-half cent sales tax on retail sales of taxable items. If the additional tax is levied, the effective tax rate and the rollback tax rate calculations are required to be offset by the revenue that will be generated by the sales tax in the current year.

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates

Property Assessment and Tax Payment

Property within the City is generally assessed as of January 1 each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Effective January 1, 2012, oil and gas reserves are assessed on the basis of a valuation process that uses pricing information contained in the most recently published edition of the Annual Energy Outlook or the Short-Term Energy Outlook, as applicable, published by the United States Energy Information Administration, as well as appraisal formulas developed by the State Comptroller of Public Accounts. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years of age or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 each year and the final installment due on August 1.

[Remainder of page left blank intentionally.]

Penalties and Interest

Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

<u>Month</u>	<u>Cumulative Penalty %</u>	<u>Cumulative Interest %</u>	<u>Total %</u>
February	6	1	7
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	12	6	18

After July, the penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, an attorney's collection fee of up to 20% may be added to the total tax, penalty and interest charge. Under certain circumstances, delinquent taxes on the homestead of a taxpayer 65 years of age or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

City Application of Tax Code

The City grants a \$16,700 exemption to the market value of the residence homestead of persons 65 years of age or older; the disabled are also granted an exemption of \$10,000.

The City has not granted any part of the optional exemption of up to 20% of the market value of residence homesteads.

The City has established the optional tax ceiling on residence homesteads of disabled persons and persons 65 of age or older. The tax ceiling transfers to the surviving spouse in accordance with State law.

See "Table 1" in "APPENDIX A – FINANCIAL INFORMATION REGARDING THE CITY" for a listing of the amounts of the exemptions described above.

Ad valorem taxes are not levied by the City against the exempt value of residence homesteads for the payment of debt.

The City does not tax non-business personal property.

The City does not permit split payments of taxes, and does not allow discounts for early payment of taxes, although discounts are permitted on a local-option basis by the Property Tax Code.

Since the 1999 tax year, the City has exempted freeport property from taxation.

The City does not tax goods-in-transit.

The City collects an additional three-eighth cent sales tax to help reduce ad valorem taxes.

The Appraisal District collects taxes for the City.

Tax Abatement Policies

The City has established a tax abatement program to encourage economic development. To be considered for tax abatement, a project must be located in a reinvestment zone or enterprise zone (a commercial project must be in an enterprise zone) and must meet several criteria pertaining to job creation and property value enhancement. In 2003, the Legislature made changes to the statute governing enterprise zones, including designating zones by block group based on poverty rate. The block groups meeting the criteria become enterprise zone eligible, but can only be used for tax abatement if the new zones are activated. In November, 2013, the City revised the eligible block groups based on the 2010 census and now have thirty-three eligible block groups. At present, there are eight active tax abatement agreements, principally for companies located in the northeast and southeast sections of Lubbock. In accordance with State law, the City has adopted policies for granting tax abatements, which provide guidelines for tax abatements for both industrial and commercial projects. The guidelines for industrial and commercial projects are similar, except that qualifying industrial projects may receive a ten-year abatement, while qualifying commercial projects are limited to five-year tax abatements. Since 1997, the City has negotiated abatements on a declining percentage basis, with a portion of the tax value added to the City's tax roll each year during the life of the abatement. The City's policies provide a variety of criteria that affect the terms of the abatement, including the projected life of the project, the type of business seeking abatement, with certain businesses targeted for abatement, the amount of real or personal property to be added to the tax roll, the number of jobs to be created or retained, and other factors. The policies disallow abatements for certain categories of property including real property, inventories, tools, vehicles, aircraft, and housing. Each abatement policy provides for a recapture of the abated taxes if the business is discontinued during the term of the agreement, except

for discontinuances caused by natural disaster or other factors beyond the reasonable control of the applicant. For a description of the amount of property abated for City taxation purposes, see “Table 1” in “APPENDIX A – FINANCIAL INFORMATION REGARDING THE CITY.”

Tax Increment Financing Zones

Chapter 311, Texas Tax Code, provides that the City and other taxing entities may designate a continuous geographic area in its jurisdiction as a tax increment financing zone (“TIF”) if the area constitutes an economic or social liability in its present condition and use. Other overlapping taxing units may agree to contribute all or a portion of their taxes collected against the “Incremental Value” in the TIF to pay for TIF projects. Any ad valorem taxes relating to growth of the tax base in a TIF, above the base value established at the time the TIF is created, may be used only to finance improvements within the TIF and are not available for the payment of other tax supported debt of the City and other participating taxing units. Together with other taxing units, the City participates in three TIFs: the Central Business District Reinvestment Zone (the “Downtown TIF”), the North Overton Tax Increment Financing Reinvestment Zone (the “North Overton TIF”) and the LBP Tax Increment Reinvestment Zone (the “LBP TIF”).

The Downtown TIF covers a 0.71 square-mile area, which includes part of the Central Business District and abuts the North Overton TIF. The base taxable values of the TIF are frozen at the level of taxable values for 2001, the year of creation, at \$105,858,251. For tax year 2017, the Downtown TIF had a taxable value of \$206,096,705, before taking into account tax abatements and exemptions. After tax abatements and exemptions, the taxable value in the Downtown TIF was \$205,642,967. In addition to the City, Lubbock County, Lubbock County Hospital District, and the High Plains Underground Water Conservation District (collectively, the “Taxing Units”) participate in the Downtown TIF. Given the relative tax rates of the participants, it is anticipated that the City will be the largest contributor to the tax increment fund if there is growth from the frozen base. On September 24, 2009, the City approved an extension of the termination date of the TIF to December 31, 2040 in order to provide additional funding to implement the TIF project and finance plan.

The City enacted an ordinance in 2002 establishing the North Overton TIF. Each of the other Taxing Units in the Downtown TIF also participated in the North Overton TIF. The City ordinance establishing the North Overton TIF provides that the North Overton TIF will terminate on December 31, 2031, or at an earlier time designated by a subsequent City ordinance. The North Overton TIF consists of 325 acres near the Central Business District of Lubbock. The taxable base value for the North Overton TIF was established as of January 1, 2002, at \$26,940,604. For tax year 2017, the North Overton TIF had a taxable value of \$543,861,681 before taking into account tax abatements and exemptions. After tax abatements and exemptions, the taxable value in the North Overton TIF was \$543,801,581.

The City enacted an ordinance in 2009 establishing the LBP TIF. Each of the other Taxing Units in the Downtown TIF and the North Overton TIF also participate in the LBP TIF. The City ordinance establishing the LBP TIF provides that the LBP TIF will terminate on December 31, 2039, or at an earlier time designated by a subsequent City ordinance. The LBP TIF consists of 586.1 acres near the Airport. The base taxable value of the LBP TIF was established in 2009, the year of creation, at \$410,486. For tax year 2017, the LBP TIF had a taxable value of \$56,499,323, before taking into account tax abatements and exemptions. After tax abatements and exemptions, the taxable value in the LBP TIF was \$54,561,371.

FINANCIAL POLICIES

Policies

Basis of Accounting . . . The accounting policies of the City conform to generally accepted accounting principles of the Governmental Accounting Standards Board (“GASB”) and program standards adopted by the Government Finance Officers Association of the United States and Canada (“GFOA”). The GFOA has awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for each of the fiscal years ended September 30, 1984 through September 30, 2002 and September 30, 2004 through September 30, 2016. The City will submit the City’s 2017 report to GFOA to determine its eligibility for another certificate.

Comprehensive Annual Financial Report (CAFR). . . Beginning with the year ended September 30, 2002, the City’s CAFR has been presented under the GASB Statement No. 34, *Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Note Disclosures*. For additional information regarding accounting policies that are applicable to the City, see Note I. “Summary of Significant Accounting Policies” in the financial statements of the City attached as “APPENDIX B – EXCERPTS FROM ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED SEPTEMBER 30, 2017”.

General Fund Balance . . . The City’s objective is to maintain an unreserved/undesignated fund balance of 20% of operating revenues to meet unanticipated contingencies and fluctuations in revenue. The City’s General Fund currently has an unreserved/undesignated fund balance that is at 142.7% of the target established by the City’s financial policies.

Waterworks, Wastewater, Storm Water, Solid Waste, and Airport Enterprise Fund Balances . . . It is the policy of the City to maintain appropriable net position in the Waterworks and Wastewater funds in an amount equal to 25% of operating revenues for unforeseen contingencies. The City’s goal of appropriable net position in the Storm Water, Solid Waste and Airport funds is an amount equal to 15% of regular operating revenues. The City currently exceeds its policy on appropriable net position and unrestricted net position for its various enterprise funds. According to audited numbers for FY 2017, the target net position by policy and current appropriable net position for the Waterworks, Wastewater, Storm Water, Solid Waste and Airport enterprise funds are as follows:

<u>Enterprise Fund</u>	<u>Target Net Position by Policy</u>	<u>Appropriable Net Position</u>
Waterworks	\$20.2 million	\$47.1 million
Wastewater	\$10.5 million	\$16.5 million
Storm Water	\$3.8 million	\$9.3 million
Solid Waste	\$3.1 million	\$8.2 million
Airport	\$1.7 million	\$13.6 million

To provide efficiency and cost savings in operations, the City’s fiscal year 2017/18 budget combined the Waterworks System and Wastewater System into a combined utility system. Future reporting of the Water and Wastewater System will be done on a combined basis. However, the City will continue to account for the Waterworks System and the Wastewater System separately. The policy to maintain an appropriable net position for the Water and Wastewater System will remain at an amount equal to 25% of operating revenues of the combined system.

Electric Enterprise Fund Balance . . . It is the policy of Lubbock Power & Light, the City’s municipally-owned electric utility system (“LP&L”) to maintain a general reserve fund. In response to a City Charter amendment approved by the voters in November 2004, the City Council adopted an ordinance relating to the governance, management and operations of LP&L (the “LP&L Governance Ordinance”) to include, among other things, enhancements to the requirements regarding the reserve funds LP&L maintains. The LP&L Governance Ordinance established a governing body for LP&L (the “Electric Utility Board”) and requires the Electric Utility Board to (i) maintain sufficient operating cash to satisfy all current accounts payable and (ii) maintain a general reserve fund that is equal to the greater of three months gross retail electric revenue (GRR) as determined by taking the average monthly GRR from the previous fiscal year. This general reserve fund shall be used for operational purposes, rate stabilization and for meeting the electric utility demand of any rapid or unforeseen increase in residential and/or commercial development. According to audited numbers for FY 2017, the target general reserve by ordinance and general reserve for LP&L are as follows:

<u>Enterprise Fund</u>	<u>Target General Reserve by Policy</u>	<u>General Reserve</u>
LP & L	\$59.0 million	\$64.2 million

Enterprise Fund Revenues. . . It is the policy of the City that each of the Electric, Water/Wastewater, and Storm Water funds be operated in a manner that results in self-sufficiency, without the need for additional monetary transfers from other funds. Such self-sufficiency is to be obtained through the rates, fees and charges of each of these enterprise funds. For purposes of determining self-sufficiency, cost recovery for each enterprise fund includes direct operating and maintenance expense, as well as indirect cost recovery, in-lieu of transfers to the General Fund for property and franchise tax payments, capital expenditures and debt service payments, where appropriate. Rate increases may be considered in future budgets as costs may warrant, including specifically the costs related to fuel charges that may affect LP&L and the cost of providing service.

Debt Service Fund Balance . . . A reasonable debt service fund balance is maintained in order to compensate for unexpected contingencies.

Budgetary Procedures . . . The City follows these procedures in establishing operating budgets:

- 1) Prior to August 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- 2) Public hearings are conducted to obtain taxpayer comments.
- 3) Prior to October 1 the budget is legally enacted through passage of an ordinance.
- 4) City Council action is required for the approval of any supplemental appropriations.
- 5) The General Fund budgets major classes of revenue and expenditures to the fund level. The City Manager is authorized to transfer budgeted amounts between accounts below the fund level. Any transfer of funds between funds is presented to the City Council for approval by ordinance before the funds are transferred or expended. Appropriations for the General Fund lapse at fiscal year-end..
- 6) Certain special revenue funds and the Debt Service Fund are budgeted at the fund level on an annual basis. The Debt Service Fund achieves additional oversight through general obligation bond indenture and other contract provisions.
- 7) The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles with the exception of capital leases and capital outlay.
- 8) Capital projects and certain grants are also budgeted annually, but their budgets do not lapse at fiscal year-end. These funds have project length budgets which remain in effect until the project is completed and closed.

9) Budgetary comparison is presented for the General Fund, Special Revenue Funds and the Debt Service Fund in the Required Supplementary Information of the Comprehensive Annual Financial Report. The City has received the Distinguished Budget Presentation Award from the GFOA for the following budget years beginning October 1, 1983-88 and 1990-2016.

On September 14, 2017, the City Council approved the budget and set the tax rate for the fiscal year ending September 30, 2018.

Insurance and Risk Management . . . The City is self-insured for public entity liability and health benefits coverage. Risk management purchases an \$18 million excess insurance policy for liability claims in excess of \$500,000 per occurrence. Airport liability insurance and workers' compensation is insured under guaranteed cost policies. The City maintains insurance policies with large deductibles for fire and extended property coverage and boiler and machinery coverage. The Health Benefits are covered by a self-insured program with a \$350,000 individual cap for 2017.

An Insurance Fund has been established in the Internal Service Fund to account for insurance programs and budgeted transfers are made to this fund based upon estimated payments for claim losses.

At September 30, 2017, the audited total Net Position of these insurance funds was as follows:

Self-insurance – health: \$10,745,595

Self-insurance – risk management: \$8,221,618

The City obtains an actuarial study of its risk management fund (the "Risk Fund") every year. In FY 2015, an actuarial study was conducted in order to allocate costs to departments. Considered were the types of insurance protection obtained by the City, the loss exposure and loss history, and claims being paid or reserved which are not covered by insurance. For fiscal year 2017, the actuarial review recommended that the liabilities of the Risk Fund be increase to \$2,911,858 from \$1,291,107 to the minimum expected confidence level of the GASB Statement Number 10 ("GASB 10"), which requires maintenance of risk management assets at a level representing at least a 50% confidence level that all liabilities, if presented for payment immediately, could be paid. The Risk Fund has unrestricted net position for insurance claims of \$6,014,824 over the recommended funding level. Given the net position balance, the City exceeds the minimum GASB 10 requirement. For FY 2017, the actuarial review also recommended that the reserve of the Health Fund be increase to \$1,708,169 from \$1,692,743 in FY 2017.

Administration

The City has implemented a number of significant changes in the administration and management of the City's budgeting and fiscal needs. Certain of the measures implemented by the City to strengthen this process are described below.

Establishment of Audit and Investment Committee . . . In 2003, the City Council established an independent Audit and Investment Committee composed of five members. The Audit and Investment Committee is charged with maintaining an open avenue of communication between the City Council, City Manager, internal auditor and independent external auditor to assist the City in fulfilling its fiduciary responsibility to its citizens. The committee has the power to conduct or authorize investigations into the City's financial performances, internal fiscal controls, exposure and risk assessment. The committee is appointed by the City Council and informally reports to the City Manager. The establishment of the committee is designed to serve as an additional check on the preparation of the City's financial statements and to avoid weaknesses in the City's internal controls, including the status and adequacy of information systems and security.

The chair of the committee is appointed by the Mayor and the other positions are filled by a vote of the City Council. At least two members of the committee are required to have a background in financial reporting, accounting or auditing, at least one member is required to be a certified public accountant, and at least one member is required to have an extensive background in investments. The current membership of the committee consists of: Chairman, Gregory Taylor, CPA, D Williams & Co., P.C.; Terisa Clark, CPA, Trinity Church; Clayton Ratterree, Senior Credit Analyst, First Bank & Trust; Brandon Kidd, Commercial Lender, City Bank; and Keith Mann, President, Diversified Lenders.

Monthly Assessments of Revenues and Expenditures . . . Since FY 2006, City management assesses monthly the budgeted expenditures and revenues of the City, and incorporates budget adjustments as necessary to better match expenditures with revenues. Transfers within the various Funds of the City are implemented on an as-needed basis to take into account changes in revenues projected to be received throughout a fiscal year as well as efficiencies realized in the provision of services to the citizens of the City.

Truth-in-Taxation . . . For FY 2018 (Tax Year 2017), the City's total tax rate was set at \$0.53802 per \$100 taxable assessed valuation. The City's taxable assessed valuation increased approximately \$968.6 million or 6.03% from FY 2017 to FY 2018. The City Council, on June 12, 2003, passed a resolution affirming their support for truth-in-taxation. The goal of this resolution is to allow the citizens to be better informed about the real needs of City government and if the increased revenue from increased appraisal values is truly necessary. The resolution goes on to provide that each year the tax rate should be adopted based on the actual needs of government. The goal was affirmed in April 2004 in a resolution that stated the City Council has supported, as well as taken action, to provide tax relief to property owners within the City. In addition, the City Council recognized the need for the City to be autonomous in its ability to provide the public safety, health, and quality of life for its citizens.

Retirement Plans

Each qualified employee is included in one of two retirement plans in which the City participates. These are the Texas Municipal Retirement System (“TMRS”) and the Lubbock Fire Pension Fund (“LFPF”). The City does not maintain the accounting records, hold the investments, or administer either retirement plan.

The total (aggregate for the TMRS and LFPF plans) of the City’s net pension liabilities, deferred outflows of resources and deferred inflows of resources related to pensions as of September 30, 2017 and the pension expense for the year ended is as follows:

	TMRS	LFPF	Total
Net pension liability	\$126,048,532	\$92,000,557	\$218,049,089
Deferred outflows of resources	37,822,134	34,806,960	72,629,094
Deferred inflows of resources	3,354,285	1,307,827	4,662,112
Pension expense	24,802,042	16,349,934	41,151,976

TMRS...The City participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the TMRS. TMRS is an agency created by the State of Texas and administered in accordance with the Subtitle G, Title 8, Texas Government Code (the “TMRS Act”) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of TMRS with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS’s defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

All eligible employees of the City are required to participate in TMRS. TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 17.96% and 17.95% in calendar years 2016 and 2017, respectively. The City’s contribution to TMRS for the year ended September 30, 2017, were \$17,128,597, and were equal to the required contributions.

The City’s net pension liability (NPL) was measured as of December 31, 2016, and the total pension liability (TPL) used to calculate the net pension liability was determined by an actuarial valuation as of that date.

LFPF...The Board of Trustees of the LFPF is the administrator of a single-employer defined benefit pension plan. This pension fund is a trust fund. It is reported by the City as a related organization and is not considered to be a part of the City financial reporting entity. Firefighters in the Lubbock Fire Department are covered by the LFPF.

The LFPF provides service retirement, death, disability, and withdrawal benefits. These benefits fully vest after 20 years of credited service. A partially vested benefit is provided for firefighters who terminate employment with at least 10 but less than 20 years of service. Employees may retire at age 50 with 20 years of service. A reduced early service retirement benefit is provided for employees who terminate employment with 20 or more years of service. The LFPF Plan, most recently amended on September 9, 2015, provides a monthly normal service retirement benefit, payable in a Joint and Two-Thirds to Spouse form of annuity, equal to 68.92 percent of final 48-month average salary plus \$335.05 per month for each year of service in excess of 20 years.

The contribution provisions of this plan are authorized by the Texas Local Fire Fighters Retirement Act, Article 6243e, Texas Revised Civil Statutes (“TLFFRA”). TLFFRA provides the authority and procedure to change the amount of contributions determined as a percentage of pay by each firefighter and a percentage of payroll by the city. While the actual contribution rates are not actuarially determined, state law requires that each plan of benefits adopted by LFPF be approved by an eligible actuary. The actuary certifies that the contribution commitment by the firefighters and the city provides an adequate financing arrangement. Using the entry age actuarial cost method, LFPF’s service cost contribution rate is determined as a percentage of payrolls. The excess of the total contribution rate over the service cost contribution is used to amortize LFPF’s net pension liability, if any, and the number of years needed to amortize LFPF’s net pension liability, if any is determined using a level percentage of payroll method. The costs of administering the plan are financed by LFPF.

Employees were required to contribute 12.43% of their annual gross earnings during the fiscal year. The contribution rates for the City were 21.73% and 21.72% in calendar years 2016 and 2017, respectively. The City’s contributions to LFPF for the year ended September 30, 2017 were \$7,071,721 and were equal to the required contributions.

For additional information concerning the City’s retirement plans, see “APPENDIX B – EXCERPTS FROM ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED SEPTEMBER 30, 2017 – Note III, Subsection G - Retirement Plans”.

Other Post-Employment Benefits

In addition to pension benefits, the City currently provides certain other post-employment benefits (“OPEB”) to its employees. The City’s annual OPEB expense is calculated based on the annual required contribution of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. For further information regarding the City’s OPEB obligation, see “APPENDIX B – EXCERPTS FROM ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED SEPTEMBER 30, 2017 – Note III, Subsection H”.

INVESTMENTS

The City invests its investable funds in investments authorized by Texas law, including specifically the Public Funds Investment Act (Chapter 2256, Texas Government Code, and referred to herein as the “PFIA”), in accordance with investment policies approved by the City Council of the City. Both State law and the City’s investment policies are subject to change.

Legal Investments

Under State law, the City is authorized to invest in: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (the “FDIC”) or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund (the “NCUSIF”) or their respective successors; (8) interest-bearing banking deposits, other than those described in clause (7), that (i) are invested through a broker or institution with a main office or branch office in this state and selected by the City in compliance with the PFIA, (ii) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the City’s account, (iii) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States, and (iv) the City appoints as its custodian of the banking deposits, in compliance with the PFIA, the institution in clause (8)(i) above, a bank, or a broker-dealer; (9) certificates of deposit and share certificates meeting the requirements of the PFIA (i) that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the FDIC or the NCUSIF, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8), above, or secured in accordance with Chapter 2257, Texas Government Code, or in any other manner and amount provided by law for City deposits, or (ii) where (a) the funds are invested by the City through a broker or institution that has a main office or branch office in the State and selected by the City in compliance with the PFIA, (b) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the account of the City, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and (d) the City appoints, in compliance with the PFIA, the institution in clause (9)(ii)(a) above, a bank, or broker dealer as custodian for the City with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described by clause (1) which are pledged to the City, held in the City’s name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers’ acceptances with a stated maturity of 270 days or less, if the short-term obligations of the accepting bank, or of the holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or an equivalent by either (i) two nationally recognized credit rating agencies, or (ii) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (13) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission and complies with Securities and Exchange Commission Rule 2a-7; (14) no-load money market mutual funds that are registered and regulated by the Securities and Exchange Commission that have a weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations approved in this paragraph, or (ii) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset backed securities; (15) guaranteed investment contracts that have a defined termination date and are secured by obligations described in clause (1), excluding obligations which the City is explicitly prohibited from investing in described below, and in an amount at least equal to the amount of bond proceeds invested under such contract; (16) securities lending programs if (i) the securities loaned under the program are 100% collateralized, (ii) a loan made under the program allows for termination at any time, (iii) a loan made under the program is either secured by (a) obligations described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent, or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (12) through (14) above, or an authorized investment pool, (iv) the terms of a loan made under the program require that the securities being held as collateral be pledged to the City, held in the City’s name, and deposited at the time the investment is made with the City or with a third party designated by the City, (iv) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State, and (v) the agreement to lend securities has a term of one year or less; and (17) hedging transactions, including hedging contracts, and related security, credit, and insurance agreements (i) in connection (a) with commodities used by the City in its general operations, (b) with the acquisition or construction of a capital project, or (c) with a project eligible under 1371.001, Texas Government Code, and (ii) that comply with the regulations of the Commodity Futures Trading Commission and the Securities and Exchange Commission.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service.

The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Investment Policies

Under State law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under State law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City; (2) that all investment officers jointly prepared and signed the report; (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group; (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period; (5) the maturity date of each separately invested asset; (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest City funds without express written authority from the City Council.

Additional Provisions

Under State law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers' with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (3) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (5) provide specific investment training for the Chief Financial Officer and investment officers; (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (7) restrict its investment in mutual funds in the aggregate to no more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, and to invest no portion of bond proceeds, reserves and funds held for debt service, in mutual funds described by clause (14) under "INVESTMENTS – Legal Investments"; (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, (9) adopt an ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the said ordinance or resolution; and (10) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

The City owns LP&L, a municipal electric utility that is engaged in the distribution and sale of electric energy. As an owner of a municipal electric utility, the City has the authority under the PFIA to enter into hedging contracts and related security and insurance agreements in relation to fuel oil, natural gas, coal, nuclear fuel, and electric energy to protect against loss due to price fluctuations. The City currently does not exercise this investment authority, but reserves the right in the future to amend its investment policy to provide for such investment authority.

The City's Investment Policy and Investment Strategy

The City invests its funds according to Texas law and the City's own Investment Policy and Investment Strategy. The Investment Policy mandates five principal investment objectives: (a) compliance with all federal, state, and other legal requirements; (b) preservation of capital and protection of investment principal; (c) maintenance of sufficient liquidity to meet anticipated disbursements and cash flows; (d) diversity in market sector and maturity to minimize market risk in a particular sector; and (e) attainment of a market rate of return equal to or higher than the performance measure established by the Chief Financial Officer or the designee thereof.

The City's Investment Policy and Investment Strategy is designed to operate within the restrictions set forth in applicable state and federal laws and statutes, but it does not permit all activity allowed by those laws. The Investment Policy provides that (i) changes to state or federal laws, which restrict a permitted activity under the Investment Policy, are incorporated into the Investment Policy immediately upon becoming law and (ii) changes to state or federal laws, which do not further restrict the Investment Policy, are reviewed by the City's Audit and Investment Committee and recommended to the City Council when appropriate.

The City's Investment Policy and Investment Strategy provides that the legal investments described above under the caption "Legal Investments" are authorized investments for the City, except for investments described by clauses (3), (6), (14), (15) and (16) in the first paragraph of "INVESTMENTS – Legal Investments." Currently, the City does not engage in hedging transactions described by clause (17) in the first paragraph of "INVESTMENTS – Legal Investments", but reserves the right in the future to amend its investment policy to provide for such investment authority.

See Table 17 in "APPENDIX A – FINANCIAL INFORMATION REGARDING THE CITY" for details on the City's investable funds as of December 31, 2017.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Bond Counsel relating to the Bonds is set forth in Appendix C hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Certificate, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The City has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel relating to the Bonds assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel relating to the Bonds is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislature proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the

Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel relating to the Bonds is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service (the "Service") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the City or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the Service. The City has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the City or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the Service. Under current procedures, parties other than the City and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of Service positions with which the City legitimately disagrees, may not be practicable. Any action of the Service, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the City or the Beneficial Owners to incur significant expense. Interest on the Bonds owned by a corporation (other than an S corporation, a regulated investment company, a real estate investment trust (REIT), a real estate mortgage investment conduit (REMIC) or a financial asset securitization investment trust (FASIT)) will be included in such corporation's adjusted current earnings for purposes of calculating such corporation's alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by the Code is computed.

The foregoing opinions of Bond Counsel are based on the Code and the regulations, rulings and court decisions thereunder in existence on the date of issue of the Bonds. Such authorities are subject to change and any such change could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof or change the treatment of such interest for purposes of computing alternative minimum taxable income.

In rendering its bond opinion on the Bonds (see "APPENDIX C – FORM OF BOND COUNSEL OPINION"), Bond Counsel has assumed continuing compliance by the City with certain covenants of the Ordinance and has relied on representations by the City with respect to matters solely within the knowledge of the City, which Bond Counsel has not independently verified. The covenants and representations relate to, among other things, the use of Bond proceeds and any facilities financed or refinanced therewith, the source of repayment of the Bonds, the investment of Bond proceeds and certain other amounts prior to expenditure, and requirements that excess arbitrage earned on the investment of Bond proceeds and certain other amounts be paid periodically to the United States and that the City file an information report with the Service. If the City should fail to comply with the covenants in the Ordinance, or if its representations relating to the Bonds that are contained in the Ordinance should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt or accrual of interest on, or acquisition or disposition of the Bonds.

Bond Counsel's opinion relating to the Bonds is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Service with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the City as the "taxpayer," and the owners of such Bonds may have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the City may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Under the Code, taxpayers are required to provide information on their returns regarding the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations, such as the Bonds, may result in collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. Such prospective purchasers should consult their tax advisors as to the consequences of investing in the Bonds.

National Association of Bond Lawyers Letter

On March 29, 2018, the National Association of Bond Lawyers (“NABL”) sent a letter to Christie Jacobs, Director, Indian Tribal Governments/Tax Exempt Bond Office, Internal Revenue Service, discussing certain matters relating to the issuance of tax-exempt bonds to refund taxable bonds. In the letter, NABL summarizes the legal analysis that supports the issuance of tax-exempt bonds to advance refund taxable bonds under current law, notes recent public statements by U.S. Treasury and IRS officials confirming that favorable conclusion, and requests guidance from the group within the IRS responsible for auditing tax-exempt bonds (known as “TEB”) to the effect that TEB will not take a contrary position in the audit context. It is within TEB’s discretion whether to provide such guidance or to confirm such legal analysis.

RATINGS

The Bonds are rated “AA+” by S&P Global Ratings, a Standard & Poor’s Financial Services LLC business and “AA+” by Fitch Ratings. An explanation of the significance of such ratings may be obtained from the company furnishing the rating.

The City has outstanding ad valorem tax supported debt that has a rating of “Aa2” by Moody’s Investors Service, Inc. The City did not request a rating by Moody’s on the Bonds.

The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by any or all of such rating companies, if in the judgment of any or all companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. A credit rating on a security is not a recommendation to buy, sell or hold such securities and may be subject to revision or withdrawal at any time.

LITIGATION

A number of claims against the City, as well as certain other matters of litigation, are pending with respect to various matters arising in the normal course of the City’s operations. Other than the matter identified below, the City Attorney and the City Management are of the opinion that resolution of the claims pending (including the matters identified in the notes to the City’s financial statements, attached to this Official Statement as Appendix B) will not have a material effect on the City’s operations or financial condition and there is no other litigation or procedures pending or, to their knowledge, threatened against the City in any court, agency or administrative body (either state or federal) wherein an adverse decision would materially adversely affect the operations or financial condition of the City.

Beck Steel, Inc. et. al. v. City of Lubbock et. Al.... The Plaintiff is asserting that the City illegally charged storm water fees to residents as the City used the fees to pay for expenses not related to storm water and not allowed by state law. The City filed a Plea to the Jurisdiction regarding the Plaintiff’s claim for recovery of the fees and it was denied by the court. Both parties filed Motions for Summary Judgment in August 2017. Oral arguments were heard by trial court in December 2017 and the trial court granted the City’s First Amended Motion for Summary Judgment on January 11, 2018. Plaintiff has appealed the decision to the Court of Appeals

REGISTRATION AND QUALIFICATION OF THE BONDS FOR SALE

The Bonds have not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Ordinance has not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor has the Ordinance been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the PFIA requires that the Bonds be assigned a rating of “A” or its equivalent as to investment quality by a national rating agency. See “RATINGS” herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

LEGAL MATTERS

The delivery of the Bonds is subject to the approval of the Attorney General of Texas to the effect that such Bonds are valid and legally binding obligations of the City payable from sources and in the manner described herein and in the Ordinance and the approving legal opinions of Bond Counsel. The form of Bond Counsel's opinion is attached hereto in Appendix C. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Counsel for the Underwriters. The legal fee of such firm is contingent upon the sale and delivery of the Bonds.

Bond Counsel was engaged by, and only represents, the City. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing in this Official Statement under the captions "THE BONDS", "TAX MATTERS," "REGISTRATION AND QUALIFICATION OF THE BONDS FOR SALE," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," "LEGAL MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" (except for the subsection "Compliance with Prior Undertakings"), and such firm is of the opinion that such descriptions present a fair and accurate summary of the provisions of the laws and instruments therein described and such information conforms to the Ordinance.

The legal opinion to be delivered concurrently with the delivery of the Bonds expresses the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board ("MSRB").

Annual Reports

The City will provide to the MSRB updated financial information and operating data annually. The information to be updated includes quantitative financial information and operating data with respect to the City of the general type included in this Official Statement in APPENDIX A (Tables 1-5 and 7-17) and in APPENDIX B. The City will provide this information within 6 months after the end of each fiscal year ending in or after 2018. If audited financial statements are not available when the information is provided, the City will provide audited financial statements when and if they become available and unaudited financial statements within 12 months after fiscal year end, unless audited financial statements are sooner provided. Financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation. The City may provide updated information in full text or may incorporate by reference documents available on EMMA or filed with the U.S. Securities and Exchange Commission (the "SEC").

The City's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB via EMMA.

Notice of Certain Events

The City will also provide timely notices of certain specified events to the MSRB via EMMA. The City will provide notice of any of the following events with respect to the Bonds within ten Business Days after the occurrence of such event: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor Paying Agent/Registrar or change in the name of the Paying Agent/Registrar, if material.

As used above, the phrase “bankruptcy, insolvency, receivership or similar event” means the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if jurisdiction has been assumed by leaving the City Council and officials or officers of the City in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information

The City has agreed to provide the foregoing information only as described above. The information will be available free of charge via the EMMA system at www.emma.msrb.org.

Limitations and Amendments

The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds, in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling the Bonds in the primary offering of such Bonds.

If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

During the last five years, the City has complied in all material respects with all continuing disclosure agreements entered into by it in accordance with the Rule.

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

Grant Thornton LLP, a firm of independent public accountants (“Grant Thornton”), will deliver to the City, on or before the date of delivery of the Bonds, a report indicating that it has verified, in accordance with attestation standards established by the American Institute of Certified Public Accountants, the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Escrowed Securities, to pay, when due, the maturing principal of and interest on the Refunded Obligations, and (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the Bonds will be excluded from gross income for federal income tax purposes.

The verification performed by Grant Thornton will be solely based upon data, information and documents provided to Grant Thornton by RBC Capital Markets, LLC on behalf of the City. Grant Thornton has restricted its procedures to recalculating the computations proved by RBC Capital Markets, LLC, on behalf of the City and has not evaluated or examined the assumptions or information used in the computations.

The verification report will be relied upon by Bond Counsel in rendering its opinion with respect to the tax exempt treatment of the interest on the Bonds and with respect to the defeasance of the Refunded Obligations.

[Remainder of page left blank intentionally.]

FINANCIAL ADVISOR

RBC Capital Markets, LLC is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the City to determine the accuracy or completeness of this Official Statement. The Financial Advisor may also receive a fee for conducting a competitive bidding process regarding the investment of certain proceeds of the Bonds.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the City at a price equal to the initial offering prices as shown on page ii of this Official Statement, at an underwriting discount of \$_____.

The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds and such public offering prices may be changed, from time to time, by the Underwriter.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the issuer for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the City.

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells."

Morgan Stanley & Co. LLC, an underwriter of the Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

FORWARD-LOOKING STATEMENTS

The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. The City's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

MISCELLANEOUS

The financial data and other information contained herein have been obtained from the City's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

The Ordinance authorizing the issuance of the Bonds approves the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorizes its execution by an Authorized Officer and its further use in the reoffering of the Bonds by the Underwriters.

Authorized Officer
City of Lubbock, Texas

SCHEDULE I
SCHEDULE OF REFUNDED OBLIGATIONS*

Series	Maturity Date	Principal Refunded	Redemption Date
Tax & Waterworks System Surplus Revenue	02/15/19	\$ 6,425,000	--
Certificates of Obligation, Taxable Series 2010B	02/15/20	6,620,000	02/15/19
(Build America Bonds - Direct Payment)	02/15/21	6,540,000	02/15/19
	02/15/22	6,755,000	02/15/19
	02/15/23	6,985,000	02/15/19
	02/15/24	7,230,000	02/15/19
	02/15/25 ^(a)	7,500,000	02/15/19
	02/15/26 ^(a)	7,800,000	02/15/19
	02/15/27 ^(a)	8,110,000	02/15/19
	02/15/28 ^(a)	8,435,000	02/15/19
	02/15/29 ^(a)	8,775,000	02/15/19
	02/15/30 ^(a)	9,125,000	02/15/19
	Subtotal	\$ 90,300,000	
General Obligation Bonds, Taxable Series 2010B	02/15/19	\$ 985,000	--
(Build America Bonds - Direct Payment)	02/15/20	1,015,000	02/15/19
	02/15/21	1,045,000	02/15/19
	02/15/22	1,080,000	02/15/19
	02/15/23	1,120,000	02/15/19
	02/15/24	1,155,000	02/15/19
	02/15/25 ^(a)	1,200,000	02/15/19
	02/15/26 ^(a)	1,250,000	02/15/19
	02/15/27 ^(a)	1,300,000	02/15/19
	02/15/28 ^(a)	1,350,000	02/15/19
	02/15/29 ^(a)	1,405,000	02/15/19
	02/15/30 ^(a)	1,460,000	02/15/19
	Subtotal	\$ 14,365,000	
Total Obligations Refunded by the Bonds		\$ 104,665,000	

The call price of the Refunded Obligations is par plus accrued interest to their respective call dates.

^(a) Represents a sinking fund payment of a term bond maturing on 02/15/2030.

*Preliminary, subject to change.

APPENDIX A
FINANCIAL INFORMATION REGARDING THE CITY

FINANCIAL INFORMATION REGARDING THE CITY

TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2017 Market Valuation Established by Lubbock Central Appraisal District		\$ 17,630,487,852
Less Exemptions/Reductions at 100% Market Value:		
Homestead Cap Adjustment	\$ 43,065,442	
Productivity Loss	93,882,599	
Over 65 Residential Homestead Exemptions	250,235,711	
Disabled Persons - Local	13,869,800	
Disabled Veterans	89,075,647	
Prorated Exempt Property	1,317,025	
Charitable/Low Income Housing	4,448,372	
Pollution Control	571,119	
Tax Abatement Reductions ^(a)	19,868,972	
Mixed Use Vehicle	1,421,799	
Energy	13,865,459	
Freeport Exemptions	57,255,732	
Goods in Transit	-	<u>588,877,677</u>
2017 Taxable Assessed Valuation		\$ 17,041,610,175
City Funded Debt Payable from Ad Valorem Taxes:		
General Obligation Debt (as of 04/15/2018) ^(b)	\$ 963,810,000	
Plus: The 2018A Certificates ^(c)	18,375,000	
Plus: The 2018B Certificates ^(c)	16,230,000	
Less: The Refunded Obligations ^(c)	(104,665,000)	
Plus: The Bonds ^(c)	<u>96,135,000</u>	
Total Funded Debt Payable from Ad Valorem Taxes		\$ 989,885,000
Less: Self Supporting Debt Principal (as of 04/15/18) ^{(d)(e)}		
Waterworks System General Obligation Debt	\$ 236,206,685	
Wastewater System General Obligation Debt	238,408,781	
Solid Waste Disposal System General Obligation Debt	17,606,465	
Storm Water System General Obligation Debt	134,147,740	
Airport General Obligation Debt	28,985,091	
Tax Increment Financing General Obligation Debt	36,438,763	
Electric Light and Power System General Obligation Debt	28,597,648	
Gateway General Obligation Debt	69,292,249	
Cemetery General Obligation Debt	350,000	
Hotel Occupancy Tax Debt	650,000	
Internal Service Fund/Admin General Obligation Debt	<u>7,930,125</u>	<u>798,613,545</u>
General Purpose Funded Debt Payable from Ad Valorem Taxes (as of 04/15/18) ^{(d)(e)}		\$ 191,271,455
General Obligation Interest and Sinking Fund (as of 09/30/17)		\$ 3,384,958
Ratio Total Funded Debt to Taxable Assessed Valuation		5.81%
Ratio General Purpose Funded Debt to Taxable Assessed Valuation		1.12%
Current Estimated Population ^(f)		254,565
Per Capita Taxable Assessed Valuation		\$66,944
Per Capita Total Funded Debt Payable from Ad Valorem Taxes		\$3,889
Per Capita General Purpose Funded Debt Payable from Ad Valorem Taxes		\$751

^(a) See "AD VALOREM TAX INFORMATION - Tax Abatement Policies."

^(b) The statement of indebtedness does not include the City's outstanding Electric Light and Power System Revenue Bonds, payable solely from the Net Revenues of the Lubbock Power and Light System.

^(c) The Bonds are being offered by the City concurrently with the Certificates. The Certificates are being offered under a separate official statement. Initial delivery of the Bonds and each series of the Certificates through the facilities of DTC is expected to occur on or about May 1, 2018 (see "THE BONDS - Concurrent Issues").

^(d) As a matter of policy, the City provides debt service on general obligation debt issued to fund improvements to its Waterworks System, Sewer System, Solid Waste System, Storm Water System, Tax Increment Finance Reinvestment Zone, Electric Light and Power System, Airport, Cemetery, Gateway Streets, Hotel Occupancy Tax projects, the Auditorium/Coliseum and the Internal Service Fund (see "TABLE 8 - INTEREST AND SINKING FUND BUDGET PROJECTION," "TABLE 9 - GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS," "TABLE 10 - DIVISION OF GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS," AND "TABLE 11 - COMPUTATION OF SELF-SUPPORTING DEBT").

The City combined its Waterworks System and Wastewater System into a Water and Wastewater System at the start of fiscal year 2017/18. Prior to the consolidation of the Waterworks System and Wastewater System into a combined system, the City issued certain general obligation debt to finance or refinance improvements to the Waterworks System and Wastewater System, respectively. Going forward, the City expects to pay such general obligation debt from revenues of the Water and Wastewater System. The City has no outstanding Water and Wastewater System Revenue Bonds, but the City has previously obligated revenues of the Waterworks System to pay certain system costs as maintenance and operating expenditures under water supply contracts.

The City's Solid Waste Disposal System General Obligation Debt has been issued for Solid Waste System improvements, and is being paid, or is expected to be paid, from revenues derived from Solid Waste service fees. The City has no outstanding Solid Waste Disposal System Revenue Bonds.

The City's Storm Water System General Obligation Debt has been issued for Storm Water System improvements, and is being paid, or is expected to be paid, from revenues derived from Storm Water System fees. The City has no outstanding Storm Water System Revenue Bonds.

The City's Tax Increment Financing General Obligation Debt has been issued to finance or refinance construction of improvements in the North Overton TIF, and is being paid or is expected to be paid, from revenues derived from the Pledged Tax Increment Revenues. The City has no outstanding Tax Increment Financing Revenue Bonds. In FY 2017, the City anticipates that tax increment revenues will not be adequate to cover debt requirements on the Tax Increment Financing General Obligation Debt. In the instance that tax increment revenues are not sufficient to pay debt service on the Tax Increment Financing General Obligation Debt, the City intends to make an interfund loan to cover the debt service and, if the projected development in the North Overton TIF proceeds as expected, repay such loan from revenues received in future years. There could be years in which the TIF may not produce revenues in amounts sufficient to cover all debt issued for it, at least until the TIF has reached full build-out status. If revenues are insufficient and no interfund loan is made, the City is obligated to pay such obligations from ad valorem taxes.

The City's Electric Light and Power System General Obligation Debt has been issued to finance or refinance Electric Light and Power System improvements, and is being paid or is expected to be paid, from revenues derived from the Lubbock Power and Light System. The City has \$84,680,000 of outstanding Electric Light and Power System Revenue Bonds payable from a pledge of system revenues.

The City's Gateway General Obligation Debt has been issued to finance or refinance Gateway Streets improvements, and is being paid, or is expected to be paid from franchise fees. The City has no outstanding Gateway Fund Revenue Bonds.

The City's Hotel Occupancy Tax General Obligation Debt has been issued to finance tourism projects and is being paid, or is expected to be paid, from hotel occupancy taxes. The City has no Hotel Occupancy Tax Bonds.

The City's Airport General Obligation Debt has been issued to finance or refinance Airport improvements, and is being paid, or is expected to be paid from revenues derived from the Airport. The City has no outstanding Airport Revenue Bonds.

The City's Internal Service Fund General Obligation debt has been issued to finance or refinance fleet and equipment purchased by the City that is utilized by specific departments and is being paid by departmental charges. The City has no outstanding Internal Service Fund Revenue Bonds.

^(e) The self-supporting debt principal does reflect the allocation of the Certificates to their respective enterprise revenue fund debt service assignment or to tax supported debt service (see "Table 3B – DERIVATION OF GENERAL PURPOSE FUNDED TAX DEBT"). Preliminary, subject to change. The self-supporting debt allocation of the Bonds will be similar to the self-supporting debt allocation of the Refunded Obligations but the revision to allocation is not reflected in the self supporting debt principal table.

^(f) Source: the City.

TABLE 2 - TAXABLE ASSESSED VALUATION BY CATEGORY

Category	Appraised Value for Fiscal Year Ended September 30,					
	2018		2017		2016	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 9,725,684,666	55.16	\$ 9,138,189,504	54.76	\$ 8,491,302,931	54.50
Real, Residential, Multi-Family	1,714,447,768	9.72	1,558,794,087	9.34	1,329,882,432	8.54
Real, Vacant Lots/Tracts	269,415,323	1.53	261,747,902	1.57	236,945,114	1.52
Real, Acreage (Land Only)	96,932,283	0.55	98,296,438	0.59	86,115,549	0.55
Real, Farm & Ranch Improvements	36,297,090	0.21	29,067,091	0.17	34,190,805	0.22
Real, Commercial and Industrial	3,684,822,171	20.90	3,493,330,319	20.94	3,288,322,741	21.10
Real, Oil, Gas & Other Minerals	15,110,420	0.09	11,299,240	0.07	18,336,630	0.12
Real & Tangible Personal, Utilities	210,728,523	1.20	198,710,375	1.19	190,000,481	1.22
Tangible Personal, Goods-in-Transit	-	-	-	-	3,288,511	0.02
Tangible Personal, Business	1,720,217,171	9.76	1,730,072,148	10.37	1,742,387,254	11.18
Tangible Personal, Other	12,692,625	0.07	15,972,538	0.10	11,330,660	0.07
Real Property, Inventory	32,569,492	0.18	39,225,757	0.24	33,735,729	0.22
Special Inventory	111,570,320	0.63	111,616,883	0.67	115,008,028	0.74
Total Appraised Value						
Before Exemptions/Reductions	17,630,487,852	100.00	16,686,322,282	100.00	15,580,846,865	100.00
Less: Total Exemptions/Reductions	(588,877,677)		(613,334,762)		(563,980,658)	
Taxable Assessed Value	<u>\$ 17,041,610,175</u>		<u>\$ 16,072,987,520</u>		<u>\$ 15,016,866,207</u>	

Category	Appraised Value for Fiscal Year Ended September 30,					
	2015		2014		2013	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 7,962,324,105	54.03	\$ 7,642,077,901	54.03	\$ 7,500,177,258	54.43
Real, Residential, Multi-Family	1,253,918,435	8.51	1,201,502,202	8.49	1,143,927,454	8.30
Real, Vacant Lots/Tracts	203,532,471	1.38	189,505,810	1.34	183,575,994	1.33
Real, Acreage (Land Only)	84,278,201	0.57	95,000,448	0.67	96,223,564	0.70
Real, Farm & Ranch Improvements	26,618,545	0.18	12,300,004	0.09	12,657,438	0.09
Real, Commercial and Industrial	3,138,007,827	21.29	3,093,885,226	21.87	2,935,102,992	21.30
Real, Oil, Gas & Other Minerals	56,913,920	0.39	54,184,620	0.38	65,116,450	0.47
Real & Tangible Personal, Utilities	185,640,397	1.26	171,948,750	1.22	164,327,945	1.19
Tangible Personal, Goods-in-Transit	-	-	-	-	-	-
Tangible Personal, Business	1,679,970,601	11.40	1,547,884,576	10.94	1,554,470,273	11.28
Tangible Personal, Other	11,505,322	0.08	10,423,495	0.07	10,372,056	0.08
Real Property, Inventory	32,136,572	0.22	36,136,090	0.26	36,253,327	0.26
Special Inventory	101,078,976	0.69	90,344,866	0.64	76,332,064	0.55
Total Appraised Value						
Before Exemptions/Reductions	14,735,925,372	100.00	14,145,193,988	100.00	13,778,536,815	100.00
Less: Total Exemptions/Reductions	(552,414,442)		(609,520,731)		(678,329,717)	
Taxable Assessed Value	<u>\$ 14,183,510,930</u>		<u>\$ 13,535,673,257</u>		<u>\$ 13,100,207,098</u>	

Note: Valuations shown are certified taxable assessed values reported by the Lubbock Central Appraisal District to the City for purposes of establishing and levying the City's annual ad valorem tax rate and to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

TABLE 3A - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

FYE 30-Sep	Estimated City Population ^(a)	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	General Purpose Funded Tax Debt ^(b)	Ratio Tax Debt to Assessed Valuation ^(b)	Tax Debt Per Capita	Tax Year
2013	233,605	\$ 13,535,673,257	\$ 57,943	\$128,980,078	0.95%	\$ 552.13	2012
2014	236,262	14,145,193,988	59,871	130,319,182	0.92%	551.59	2013
2015	239,992	14,183,510,930	59,100	147,880,829	1.04%	616.19	2014
2016	244,861	15,016,866,207	61,328	193,985,333	1.29%	792.23	2015
2017	249,042	16,072,987,520	64,539	197,738,739	1.23%	794.00	2016
2018	254,565	17,041,610,175	66,944	191,271,455 ^(c)	1.12% ^(c)	751.37 ^(c)	2017

^(a) Source: Population estimates as provided by the City based on year figure is available and used by the City for planning purposes.

^(b) Does not include self-supported debt (see "APPENDIX A - FINANCIAL INFORMATION REGARDING THE CITY - TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" and "- TABLE 3B - DERIVATION OF GENERAL PURPOSE FUNDED TAX DEBT").

^(c) Projected. Includes the portion of the Certificates that is not anticipated to be self-supporting and payable from revenues from the enterprise funds related to the improvements financed with proceeds of the Certificates. Includes the Bonds. Excludes the Refunded Obligations. Preliminary, subject to change.

TABLE 3B - DERIVATION OF GENERAL PURPOSE FUNDED TAX DEBT

The following table sets forth certain information with respect to the City's general purpose and self-supporting general obligation debt. The City is revising its capital improvement plan, but the City expects to issue additional general purpose and self-supporting general obligation debt within the next twelve months (see "ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT" that follows).

Fiscal Year Ended 30-Sep	Tax Debt Total GO Debt Outstanding	Less: Par Amount Self-Supporting Tax Debt	Par Amount General Purpose Tax Debt Outstanding
2013	\$983,415,000	\$854,434,922	\$128,980,078
2014	981,465,000	851,145,818	130,319,182
2015	1,012,315,000	864,434,171	147,880,829
2016	1,046,015,000	852,029,667	193,985,333
2017	1,047,295,000	849,556,261	197,738,739
2018 ^(a)	989,885,000	798,613,545	191,271,455

^(a) Fiscal year end projection. Includes the Certificates. The debt service of the Certificates has been broken down by self-supporting allocation. Payment of debt service on the 2018A Certificates is expected to be tax supported. Payment of debt service on the 2018B Certificates is expected to be self-supporting. Includes the Bonds. Excludes the Refunded Obligations. Preliminary, subject to change.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

FYE 30-Sep	Tax Rate Distribution				Tax Levy ^(a)	Percent Collected		Tax Year
	General Fund	Economic Development	Interest and Sinking Fund	Tax Rate		Current	Total	
2013	\$ 0.35683	\$ 0.02937	\$ 0.10591	\$ 0.49211	\$ 63,279,229	98.6%	99.7%	2012
2014	0.36080	0.02705	0.11656	0.50441	66,684,667	98.8%	99.7%	2013
2015	0.38500	0.02315	0.11425	0.52240	71,916,404	98.9%	99.8%	2014
2016	0.39220	0.02315	0.12267	0.53802	78,237,757	98.7%	98.9%	2015
2017	0.37825	0.02315	0.13662	0.53802	83,561,044	98.4%	98.9%	2016
2018	0.38825	0.02315	0.12662	0.53802	87,792,022	58.2% ^(b)	58.6% ^(b)	2017

Source: The City's Audited Financial Statements.

^(a) The tax levy figures represent the adjusted tax levy figures for the City.

^(b) Partial collections as of December 31, 2017.

TABLE 5 - TEN LARGEST TAXPAYERS

<u>Name</u>	<u>2017 Taxable Assessed Valuation</u>	<u>% of Total Taxable Assessed Valuation</u>
Macerich South Plains LP	\$ 122,400,718	0.72%
United Supermarkets LLC	92,990,948	0.55%
Atmos Energy	61,023,330	0.36%
ACC OP LLC	48,560,499	0.28%
TTUC LLC	42,925,212	0.25%
TYCO Fire Products LP	40,674,827	0.24%
Republic at Lubbock LLC	39,805,525	0.23%
CD Park7 Lubbock / Owner LP	38,602,189	0.23%
Southwestern, Public Service	37,297,635	0.22%
CHP Raider Ranch TX Owner LLC	37,012,031	0.22%
Total	<u>\$ 561,292,914</u>	<u>3.29%</u>

Source: The Municipal Advisory Council of Texas.

TABLE 6 - ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing entities within the territory of the City are paid out of ad valorem taxes levied by such entities on properties within the City. Such entities are independent of the City and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax bonds ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional Tax Debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional Tax Debt, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the City.

<u>Taxing Jurisdiction</u>	<u>Gross Debt (As of 04/15/18)^(a)</u>	<u>Estimated % Overlapping</u>	<u>Overlapping Debt</u>
Frenship ISD	\$ 225,649,575	75.87%	\$ 171,200,333
Idalou ISD	12,030,000	4.06%	488,418
Lubbock County	32,550,000	83.36%	27,133,680
Lubbock ISD	217,970,000	94.35%	205,654,695
Lubbock-Cooper ISD	228,351,711	67.70%	154,594,108
Roosevelt ISD	8,640,000	3.55%	306,720
Estimated Overlapping Debt			<u>\$ 559,377,954</u>
City of Lubbock	\$ 191,271,455 ^(b)	100.00%	<u>191,271,455 ^(a)</u>
Total Direct & Estimated Overlapping Debt			\$ 750,649,408
As a % of 2017 Taxable Assessed Valuation			4.40%
Per Capita Total Direct & Estimated Overlapping Debt			\$ 2,949

^(a) Source of overlapping issuer debt and overlapping percentages - Texas Municipal Report of the Municipal Advisory Council of Texas.

^(b) Includes the Certificates. Net of self-supporting debt. Includes the Bonds. Excludes the Refunded Obligations. Preliminary, subject to change.

TABLE 7 - TAX ADEQUACY ^(a)

Average Annual Debt Service Requirements All General Obligation Debt (2018-2038):	\$ 66,678,550
\$0.3962 per \$100 AV against the 2017 Taxable AV, at 99% collection, produces	\$ 66,843,671
Maximum Annual Debt Service Requirements All General Obligation Debt (2018):	\$ 124,474,955
\$0.7379 per \$100 AV against the 2017 Taxable AV, at 99% collection, produces	\$ 124,492,541

^(a) Includes the Certificates. Includes the Bonds. Excludes the Refunded Obligations. Includes all outstanding general obligation debt of the City whether tax supported or enterprise fund supported. Preliminary, subject to change.

TABLE 8 - INTEREST AND SINKING FUND BUDGET PROJECTION

General Obligation Debt Service Requirement, tax supported FY 2018	\$ 24,260,627 ^(a)
Fiscal Agent Fees	13,500
Interest and Sinking Fund Balance as of September 30, 2017	\$ 3,384,958
2018 Projected Interest and Sinking Fund Tax Levy @ 99.0%	19,509,235
Estimated Other Local Revenue (transfers in)	4,581,285
Estimated Interest Earnings	<u>269,852</u>
	<u>27,745,330</u>
Projected Interest & Sinking Fund Balance, Sept. 30, 2018	\$ 3,471,203

^(a) Includes the Bonds. Excludes the Refunded Obligations. Includes the tax supported portion of the Certificates. Preliminary, subject to change.

[Remainder of page left intentionally blank]

TABLE 9 - GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

	Outstanding Debt ^(a)							Less:				
FYE			Less:	Plus: The 2018A Certificates ^{(c)(d)}		Plus: The 2018B Certificates ^{(c)(e)}			Plus: The Bonds ^(f)		Total	
30-Sep	Principal	Interest	Federal Subsidy ^(b)	Principal	Interest	Principal	Interest	The Refunded Obligations ^(f)	Principal	Interest	Debt Service	
2018	\$ 83,485,000	\$ 42,946,456	\$ (1,953,049)					\$ (1,956,922)	\$ 625,000	\$ 1,328,470	\$ 124,474,955	
2019	81,190,000	39,691,124	(1,976,230)	\$ 1,260,000	\$ 1,122,847	\$ 400,000	\$ 799,383	(11,080,142)	6,315,000	4,522,900	122,244,881	
2020	78,065,000	36,661,344	(1,853,973)	1,285,000	823,625	590,000	606,616	(11,078,092)	6,535,000	4,296,375	115,930,894	
2021	76,930,000	33,499,162	(1,725,679)	1,350,000	757,750	605,000	590,026	(10,789,832)	6,575,000	3,968,625	111,760,052	
2022	73,630,000	30,300,055	(1,592,297)	1,415,000	688,625	625,000	571,566	(10,792,123)	6,905,000	3,631,625	105,382,451	
2023	73,820,000	27,065,124	(1,449,499)	1,490,000	616,000	645,000	551,236	(10,796,927)	7,255,000	3,277,625	102,473,558	
2024	73,345,000	23,760,643	(1,296,761)	1,570,000	539,500	670,000	529,002	(10,793,270)	7,610,000	2,906,000	98,840,114	
2025	71,265,000	20,433,336	(1,126,536)	1,645,000	459,125	690,000	504,957	(10,792,139)	7,990,000	2,516,000	93,584,742	
2026	68,965,000	17,170,634	(939,167)	1,730,000	374,750	715,000	479,346	(10,794,168)	8,390,000	2,106,500	88,197,894	
2027	63,440,000	14,097,935	(744,304)	1,815,000	286,125	745,000	452,110	(10,792,278)	8,805,000	1,676,625	79,781,213	
2028	60,575,000	11,235,422	(541,681)	1,915,000	192,875	775,000	422,994	(10,790,979)	9,240,000	1,225,500	74,249,130	
2029	53,400,000	8,641,143	(330,931)	230,000	139,250	805,000	391,940	(10,794,585)	9,705,000	751,875	62,938,692	
2030	51,645,000	6,278,850	(111,735)	240,000	127,500	840,000	358,994	(10,792,508)	10,185,000	254,625	59,025,726	
2031	38,060,000	4,338,541	-	255,000	115,125	875,000	324,218	-			43,967,884	
2032	27,350,000	3,005,266	-	265,000	102,125	910,000	287,577	-			31,919,967	
2033	23,185,000	2,022,044	-	280,000	88,500	950,000	248,930	-			26,774,474	
2034	20,890,000	1,188,172	-	295,000	74,125	990,000	208,038	-			23,645,334	
2035	15,770,000	542,975	-	310,000	59,000	1,030,000	165,113	-			17,877,088	
2036	9,105,000	174,400	-	325,000	43,125	1,075,000	120,381	-			10,842,906	
2037	3,180,000	28,600	-	340,000	26,500	1,125,000	73,631	-			4,773,731	
2038	-	-	-	360,000	9,000	1,170,000	24,863	-			1,563,863	
	<u>\$ 1,047,295,000</u>	<u>\$ 323,081,223</u>	<u>\$ (15,641,842)</u>	<u>\$ 18,375,000</u>	<u>\$ 6,645,472</u>	<u>\$ 16,230,000</u>	<u>\$ 7,710,916</u>	<u>\$ (132,043,965)</u>	<u>\$ 96,135,000</u>	<u>\$ 32,462,745</u>	<u>\$ 1,400,249,550</u>	
Average Annual Debt Service Requirements All General Obligation Debt (2018-2038):											\$ 66,678,550	
Maximum Annual Debt Service Requirements All General Obligation Debt (2018):											\$ 124,474,955	

^(a) Does not include lease/purchase obligations. Does include Tax Notes outstanding. Includes the City's self-supporting debt (see "TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" and "TABLE 10 - DIVISION OF GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS." See "ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT" for information on this offering. Outstanding Debt does not reflect this additional issuance).

^(b) For fiscal year 2018, the Federal Subsidy assumes expected subsidy payments from the federal government equal to 32.69% of the interest payments on the City's Series 2010B General Obligation Bonds (BABs) and Series 2010B Certificates of Obligation (BABs), reflecting a 6.6% reduction. Future expected Federal Subsidy payments are projected at a rate of 35% of the interest payments on said obligations. Reductions to the Federal Subsidy are expected to continue as long as sequestration is in effect. Upon issuance of the Bonds, the City will no longer receive the Federal Subsidy (see "THE BONDS - Purpose").

^(c) Preliminary, subject to change.

^(d) Interest on the 2018A Certificates is calculated at the rate of 3.16% for illustrative purposes only. Preliminary, subject to change.

^(e) Interest on the 2018B Certificates is calculated at the rate of 4.21% for illustrative purposes only. Preliminary, subject to change.

^(f) The City is offering its Certificates, concurrently with the sale of the Bonds, through a separate official statement. Initial delivery of the Bonds and each of the Certificates is expected to occur on or about May 1, 2018. Debt service on the Refunded Obligations and on the Bonds is preliminary and subject to change. Debt service on the Refunded Obligations is shown net of the Federal Subsidy. Interest on the Bonds is calculated at at rate of 2.74% for illustrative purposes.

TABLE 10 - DIVISION OF GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS ^{(a)(b)}

FYE 9/30	Waterworks	Wastewater	Solid Waste	Storm	Tax	Electric Light	Cemetery	Gateway	HOT	Airport	Internal	General	Less: Refunded Obligations ^(c)	Plus: The Bonds ^(c)	Total G.O. Debt Service
	System Debt Service	System Debt Service	Disposal System Debt Service	Water System Debt Service	Increment Financing Debt Service	& Power System Debt Service					Service Fund & Admin Debt Service	Purpose Tax Supported Debt Service			
2018	\$34,241,611	\$23,592,959	\$3,775,212	\$16,596,996	\$4,113,030	\$5,787,533	\$53,375	\$8,232,158	\$83,750	\$1,732,201	\$2,008,953	\$24,260,627	(\$1,956,922)	\$1,953,470	\$124,474,955
2019	33,490,531	23,587,853	3,024,485	15,329,646	4,153,696	4,275,090	51,625	8,205,764	91,000	2,943,001	1,908,514	25,425,919	(11,080,142)	10,837,900	122,244,881
2020	30,503,622	23,372,590	2,609,703	13,882,293	4,155,549	4,274,223	54,750	8,151,434	88,000	2,934,906	1,848,143	24,302,397	(11,078,092)	10,831,375	115,930,894
2021	29,481,865	22,985,724	2,412,497	12,483,305	4,107,344	4,267,875	52,750	8,101,626	89,875	2,930,962	1,825,159	23,267,279	(10,789,832)	10,543,625	111,760,052
2022	25,324,521	22,638,664	2,354,193	12,086,353	4,111,415	3,982,020	50,750	8,096,687	91,500	2,346,443	1,828,489	22,726,915	(10,792,123)	10,536,625	105,382,451
2023	24,619,493	22,371,657	2,356,977	10,898,450	4,114,859	3,962,278	48,750	8,061,151	88,000	2,345,798	1,823,987	22,046,458	(10,796,927)	10,532,625	102,473,558
2024	24,634,686	22,078,065	2,224,313	10,740,145	4,114,448	3,084,841	46,750	8,009,997	89,375	2,346,417	1,517,295	20,231,053	(10,793,270)	10,516,000	98,840,114
2025	23,888,955	21,917,707	1,695,780	10,728,057	3,891,812	3,074,891	54,500	8,066,647	90,500	2,357,934	784,662	17,319,435	(10,792,139)	10,506,000	93,584,742
2026	23,488,088	21,253,672	1,687,551	10,704,698	3,195,299	2,869,004	52,000	6,962,993	91,375	2,137,643	407,908	15,645,332	(10,794,168)	10,496,500	88,197,894
2027	21,618,617	20,101,575	794,797	10,135,422	2,570,478	2,408,784	15,375	6,745,279	87,125	1,959,273	38,917	13,616,223	(10,792,278)	10,481,625	79,781,213
2028	20,253,349	19,692,950	695,961	9,691,950	1,320,128	1,421,558	-	6,690,286	-	1,936,459	38,915	12,833,053	(10,790,979)	10,465,500	74,249,130
2029	17,522,251	15,622,403	606,285	9,268,864	1,169,833	959,078	-	5,359,116	-	1,931,312	38,905	10,798,356	(10,794,585)	10,456,875	62,938,692
2030	17,157,431	15,608,926	569,789	8,905,117	1,108,770	442,353	-	3,090,633	-	1,925,170	38,912	10,531,507	(10,792,508)	10,439,625	59,025,726
2031	5,145,959	15,396,292	522,186	8,790,510	951,435	-	-	2,416,024	-	1,927,932	38,908	8,778,637	-	0	43,967,884
2032	2,845,222	12,045,401	17,375	6,371,284	840,225	-	-	308,725	-	1,927,835	18,975	7,544,925	-	0	31,919,967
2033	1,902,825	11,383,225	21,500	3,931,769	834,750	-	-	306,750	-	1,835,980	-	6,557,675	-	0	26,774,474
2034	1,901,575	9,211,400	20,500	3,577,797	838,000	-	-	309,225	-	1,839,538	-	5,947,300	-	0	23,645,334
2035	1,540,000	6,360,175	-	1,750,000	660,050	-	-	198,900	-	1,654,613	-	5,713,350	-	0	17,877,088
2036	1,538,700	1,484,900	-	1,750,000	460,275	-	-	-	-	1,215,681	-	4,393,350	-	0	10,842,906
2037	831,300	183,600	-	1,750,000	311,100	-	-	-	-	1,198,631	-	499,100	-	0	4,773,731
2038	-	-	-	-	-	-	-	-	-	1,194,863	-	369,000	-	0	1,563,863
	<u>\$ 341,930,601</u>	<u>\$ 330,889,737</u>	<u>\$ 25,389,104</u>	<u>\$ 179,372,657</u>	<u>\$ 47,022,495</u>	<u>\$ 40,809,528</u>	<u>\$ 480,625</u>	<u>\$ 97,313,394</u>	<u>\$ 890,500</u>	<u>\$ 42,622,591</u>	<u>\$ 14,166,643</u>	<u>\$ 282,807,894</u>	<u>\$ (132,043,965)</u>	<u>\$ 128,597,745</u>	<u>\$ 1,400,249,550</u>

^(a) For fiscal year 2018, the Federal Subsidy assumes expected subsidy payments from the federal government equal to 32.69% of the interest payments on the City's Series 2010B General Obligation Bonds (BABs) and Series 2010B Certificates of Obligation (BABs), reflecting a 6.6% reduction. Future expected Federal Subsidy payments are projected at a rate of 35% of the interest payments on said bonds. Upon the issuance of the Bonds, the City will no longer receive the Federal Subsidy (see "THE BONDS – Purpose").

^(b) The debt service on the 2018B Certificates that is expected to be self-supporting has been allocated to the following enterprise funds: the Airport Fund. The 2018A Certificates are not expected to be self-supporting and have been allocated to tax supported debt service (see "TABLE 3B - DERIVATION OF GENERAL PURPOSE FUNDED TAX DEBT"). Preliminary, subject to change.

^(c) The City is offering its 2018A Certificates and 2018B Certificates, concurrently with the sale of the Bonds, through a separate official statement. Initial delivery of the the Bonds and each of the Certificates is expected to occur on or about May 1, 2018. Debt service on the Certificates is preliminary and subject to change.

TABLE 11 - COMPUTATION OF SELF-SUPPORTING DEBT**THE WATERWORKS FUND** ^{(a)(b)}

Net System Revenue Available, Fiscal Year Ended 9-30-17	\$ 51,481,547
Less: Requirements for Revenue Bonds, Fiscal Year Ended 9-30-18	-
Balance Available for Other Purposes	51,481,547
Requirements for Fund General Obligation Debt, Fiscal Year Ending 9-30-18	34,241,611
Percentage of Fund General Obligation Debt Self-Supporting	100.00%

^(a) The City combined its Waterworks System and Wastewater System into a Water and Wastewater System at the start of fiscal year 2017/18. Future reporting of the Waterworks and Wastewater System will be done on a combined basis. However, for purposes of the limited pledge of surplus net revenues securing payment of the Certificates, the City intends to continue to account for the Waterworks System and the Wastewater System separately until such pledge is discharged.

^(b) Each Fiscal Year the City transfers an amount equal to debt service requirements on the Waterworks Fund general obligation debt to a segregated account in the Waterworks Fund.

THE WASTEWATER FUND ^{(a)(b)}

Net System Revenue Available, Fiscal Year Ended 9-30-17	\$ 30,421,596
Less: Requirements for Revenue Bonds, Fiscal Year Ended 9-30-18	-
Balance Available for Other Purposes	30,421,596
Requirements for Fund General Obligation Debt, Fiscal Year Ending 9-30-18	23,592,959
Percentage of Fund General Obligation Debt Self-Supporting	100.00%

^(a) The City combined its Waterworks System and Wastewater System into a Water and Wastewater System at the start of fiscal year 2017/18. Future reporting of the Water and Wastewater System will be done on a combined basis. However, for purposes of the limited pledge of surplus net revenues securing payment of the Certificates, the City intends to continue to account for the Waterworks System and the Wastewater System separately until such pledge is discharged.

^(b) Each Fiscal Year the City transfers an amount equal to debt service requirements on the Wastewater Fund general obligation debt to a segregated account in the Wastewater Fund.

THE SOLID WASTE SYSTEM ^(a)

Net System Revenue Available, Fiscal Year Ended 9-30-17	\$ 7,137,318
Less: Requirements for Revenue Bonds, Fiscal Year Ended 9-30-18	-
Balance Available for Other Purposes	7,137,318
Requirements for Fund General Obligation Debt, Fiscal Year Ending 9-30-18	3,775,212
Percentage of Fund General Obligation Debt Self-Supporting	100.00%

^(a) In fiscal year 2017/18, the City intends to transfer revenues from the Solid Waste Fund to the General Fund to cover the debt service requirement allocated to the Solid Waste System.

THE STORM WATER FUND ^(a)

Net System Revenue Available, Fiscal Year Ended 9-30-17	\$ 20,896,788
Less: Requirements for Revenue Bonds, Fiscal Year Ended 9-30-18	-
Balance Available for Other Purposes	20,896,788
Requirements for Fund General Obligation Debt, Fiscal Year Ending 9-30-18	16,596,996
Percentage of Fund General Obligation Debt Self-Supporting	100.00%

^(a) Each Fiscal Year the City transfers an amount equal to debt service requirements on the Storm Water Fund general obligation debt to a segregated account in the Storm Water Fund.

THE ELECTRIC LIGHT AND POWER FUND ^(a)

Net System Revenue Available, Fiscal Year Ended 9-30-17	\$ 48,300,133
Less: Requirements for Revenue Bonds, Fiscal Year Ended 9-30-18	14,143,294
Balance Available for Other Purposes	34,156,839
Requirements for Fund General Obligation Debt, Fiscal Year Ending 9-30-18	5,787,533
Percentage of Fund General Obligation Debt Self-Supporting	100.00%

^(a) Each Fiscal Year the City transfers an amount equal to debt service requirements on the Electric Light and Power Fund general obligation debt to a segregated account in the Electric Light and Power Fund.

THE GATEWAY FUND ^(a)

Net System Revenue Available, Fiscal Year Ended 9-30-17	\$ 7,966,309
Less: Requirements for Revenue Bonds, Fiscal Year Ended 9-30-18	-
Balance Available for Other Purposes	7,966,309
Requirements for Fund General Obligation Debt, Fiscal Year Ending 9-30-18	8,232,158
Percentage of Fund General Obligation Debt Self-Supporting	96.77%

^(a) Each Fiscal Year the City transfers an amount equal to debt service requirements on the Gateway Fund general obligation debt to a segregated account in the Gateway Fund. The City's FY 2018 budget includes the planned utilization of net assets totaling \$123,537 to fund debt assigned to the Gateway Enterprise and fund capital improvements in the Gateway Enterprise.

THE AIRPORT FUND ^(a)

Net System Revenue Available, Fiscal Year Ended 9-30-17	\$ 4,601,981
Less: Requirements for Revenue Bonds, Fiscal Year Ended 9-30-18	-
Balance Available for Other Purposes	4,601,981
Requirements for Fund General Obligation Debt, Fiscal Year Ending 9-30-18	1,732,201
Percentage of Fund General Obligation Debt Self-Supporting	100.00%

^(a) Each Fiscal Year the City transfers an amount equal to debt service requirements on the Airport Fund general obligation debt to a segregated account in the Airport Fund.

NORTH OVERTON TAX INCREMENT FINANCING FUND ^(a)

Net System Revenue Available, Fiscal Year Ended 9-30-17	\$ 5,313,569
Less: Requirements for Revenue Bonds, Fiscal Year Ended 9-30-18	-
Balance Available for Other Purposes	5,313,569
Requirements for Fund General Obligation Debt, Fiscal Year Ending 9-30-18	3,149,585
Percentage of Fund General Obligation Debt Self-Supporting	100.00%

^(a) Each Fiscal Year the City transfers an amount equal to debt service requirements on the North Overton Tax Increment Financing System general obligation debt to a segregated account in the Tax Increment Financing Fund.

THE CENTRAL BUSINESS DISTRICT TAX INCREMENT FINANCING FUND ^(a)

Net System Revenue Available, Fiscal Year Ended 9-30-17	\$ 848,097
Less: Requirements for Revenue Bonds, Fiscal Year Ended 9-30-18	-
Balance Available for Other Purposes	848,097
Requirements for Fund General Obligation Debt, Fiscal Year Ending 9-30-18	963,445
Percentage of Fund General Obligation Debt Self-Supporting	88.03%

^(a) Each Fiscal Year the City transfers an amount equal to debt service requirements on the Central Business District Tax Increment Financing System general obligation debt to a segregated account in the Tax Increment Financing Fund. The City's FY2018 budget includes the planned utilization of net assets totaling \$380,917 to fund debt assigned to the CBD Business District TIF Fund and capital improvements in the Central Business District TIF.

[Remainder of page left blank intentionally.]

TABLE 12 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS^(a)

Purpose	Date Authorized	Amount Authorized	Issued To Date	Unissued
Street Improvements	05/15/04	\$ 9,210,000	\$ 8,764,000	\$ 446,000
Police/Municipal Court Facilities	05/15/04	3,350,000	945,000	2,405,000
Animal Shelter Renovations & Improvements	05/15/04	1,045,000	160,000	885,000
		<u>\$ 13,605,000</u>	<u>\$ 9,869,000</u>	<u>\$ 3,736,000</u>

^(a) In addition to the authorized but unissued general obligation bonds described in Table 12, approximately \$3,742,000 of general obligation bonds approved by voters at elections held on May 21, 1977, October 17, 1987 and May 1, 1993 remain unissued; however, the City does not currently expect to issue general obligation bonds pursuant to such elections.

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT . . . The City Council adopted a resolution during the 1984-85 budget process establishing capital maintenance funds for capital projects. A capital improvement plan is made annually for planning purposes and may identify projects that will be deferred or omitted entirely in future years. In addition, as conditions change, new projects may be added that are not currently identified. Under current City policy, for a project to be funded as a capital project it must have a cost of \$25,000 or more and a life of seven or more years. For FY 2017/18, the City Council approved \$188,565,891 million in total expenditures for capital projects for all general purpose projects, as well as projects for the electric fund, waterworks and wastewater fund, solid waste fund, stormwater funds and airport fund. The Capital Projects Fund budget for FY 2017/18 also includes an additional \$541,888,673 million in future improvements for all City departments over the five succeeding fiscal years. The improvements included in the City's capital improvement plan are generally funded from a blend of debt proceeds, reserves or current year revenue sources.

As shown in Table 12, the City currently has \$3,736,000 of authorized but unissued general obligation bonds from the election held on May 15, 2004. The City typically issues voted bonds for general purpose City projects, such as streets, parks, libraries, civic centers public safety improvements. However, the City has incurred substantial non-voted tax supported debt to fund portions of the capital budget of the Electric Fund, Waterworks Fund, Wastewater Fund, Solid Waste Fund, Storm Water Fund, Tax Increment Fund, Gateway Fund, and Airport Fund. As described elsewhere in this Official Statement, such enterprise fund indebtedness is generally anticipated to be self-supporting from enterprise fund revenues.

The City currently has no definitive plans to call a bond election to seek voter approval to authorize the sale of tax supported debt within the next twelve months. However, the City is in the preliminary stages of discussing plans for a possible referendum.

The Bonds are being offered by the City concurrently with the City's offering of the Certificates (see "THE BONDS – Concurrent Issues"). In addition, within the next twelve months, the City may issue other general obligation debt (including tax notes issued to finance the acquisition of vehicles and equipment) a portion of which may be self-supporting; however, the amount and timing of any additional issuance of general obligation debt will be determined at a future date.

TABLE 13 - OTHER OBLIGATIONS

The City has various capital leases outstanding. The debt service of the leases is detailed below.

FYE 30-Sep	Governmental Capital Lease Minimum Payment	Business-Type Capital Lease Minimum Payment	Total Capital Lease Minimum Payment
2018	\$ 3,519,429	\$ 3,603,944	\$ 7,123,373
2019	3,519,429	3,603,944	7,123,373
2020	2,437,797	2,205,493	4,643,290
2021	2,189,305	2,082,052	4,271,357
2022	1,763,836	1,769,599	3,533,435
2023-2027	3,253,277	1,890,940	5,144,218
Less Interest	(1,068,524)	(834,648)	(1,903,172)
	\$ 15,614,548	\$ 14,321,325	\$ 29,935,873

The City has various Tax Note offerings outstanding. The debt service of the tax notes is detailed below.

FYE 30-Sep	Principal	Interest	Total
2018	\$ 3,197,808	\$ 181,766	\$ 3,379,574
2019	2,043,593	116,976	2,160,569
2020	1,286,308	87,340	1,373,648
2021	1,037,002	66,665	1,103,667
2022	1,055,743	48,037	1,103,780
2023-2027	2,170,833	38,835	2,209,668
	\$ 10,791,287	\$ 539,619	\$ 11,330,906

The City also has obligations to pay various contract revenue bonds issued through the Department of Housing and Urban Development and the Canadian Municipal River Authority. All Contract Revenue Bonds are payable from revenues from the Water and Wastewater System. The debt service requirements of the contract revenue bonds are detailed below.

FYE 30-Sep	Contract Revenue Bonds		
	Principal	Interest	Total
2018	\$ 3,494,034	\$ 2,284,144	\$ 5,778,178
2019	3,659,402	2,121,229	5,780,631
2020	3,833,060	1,948,927	5,781,987
2021	4,018,391	1,762,008	5,780,399
2022-2026	21,039,244	5,697,762	26,737,006
2027-2031	11,745,181	1,356,252	13,101,433
	\$ 47,789,312	\$ 15,170,322	\$ 62,959,634

[Remainder of page left blank intentionally.]

TABLE 14 - STATEMENT OF ACTIVITIES

	Fiscal Year Ended September 30				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
REVENUES					
Program Revenues					
Charges for Services	\$ 10,906,381	\$ 11,003,846	\$ 10,869,615	\$ 10,262,470	\$ 10,535,278
Operating Grants and Contributions	18,072,586	19,252,263	19,054,759	18,887,972	28,480,276
General Revenues					
Property Taxes	86,301,543	80,613,271	74,227,519	69,083,591	65,361,484
Sales Taxes	70,417,997	67,978,112	68,037,340	64,650,937	62,250,140
Occupancy Taxes	7,025,004	6,852,082	6,769,286	6,252,188	6,147,539
Other Taxes	1,603,945	1,562,933	1,562,665	1,494,361	1,266,378
Franchise Taxes	9,073,332	9,279,073	10,841,411	9,270,352	9,126,818
Investments/Misc.	4,733,734	4,482,946	3,515,134	4,092,411	6,048,068
Total Revenues	\$ 208,134,522	\$ 201,024,526	\$ 194,877,729	\$ 183,994,282	\$ 189,215,981
EXPENDITURES					
Administrative Services	\$ 14,598,216	\$ 14,944,792	\$ 12,678,745	\$ 13,842,443	\$ 13,287,438
Community Services	6,219,680	5,254,214	5,518,501	5,904,999	6,983,062
Cultural and Recreation	20,145,662	19,132,813	17,538,405	17,548,024	17,581,835
Economic/Bus. Development	17,207,379	16,833,858	16,349,405	15,737,748	16,258,386
Fire	61,435,103	56,337,294	50,954,425	45,293,942	42,646,239
Health	5,905,200	5,702,354	5,222,280	4,918,230	4,409,889
Police	69,597,467	69,246,130	62,607,334	61,580,048	59,261,383
Other Public Safety	7,991,003	9,573,985	7,052,342	6,484,824	6,803,117
Streets and Traffic	28,674,025	28,459,651	28,143,677	25,346,304	22,366,616
Interest on Long-Term Debt	12,348,553	12,566,751	11,887,688	12,006,271	13,058,063
Total Expenditures	\$ 244,122,288	\$ 238,051,842	\$ 217,952,802	\$ 208,662,833	\$ 202,656,028
Changes in net assets before special items & transfers	\$ (35,987,766)	\$ (37,027,316)	\$ (23,075,073)	\$ (24,668,551)	\$ (13,440,047)
Special items	-	-	-	-	-
Transfers	34,989,088	31,814,641	36,189,998	39,692,321	36,973,388
Changes in net position	\$ (998,678)	\$ (5,212,675)	\$ 13,114,925	\$ 15,023,770	\$ 23,533,341
Net Position -					
Beginning of Year	\$ 27,297,120	\$ 32,509,795	\$ 101,739,275	\$ 86,715,505	\$ 63,182,164
Restatement	-	-	(82,344,405) ^(a)	-	-
Net Position - End of Year	\$ 26,298,442	\$ 27,297,120	\$ 32,509,795	\$ 101,739,275	\$ 86,715,505

Note: Data shown in Table 14 reflects general governmental activities reported in accordance with GASB Statement No. 34. The financial statements include a management discussion and analysis of the operating results of such fiscal year, including restatements to beginning fund balances and net assets. As of the date of this Official Statement, a copy of the FYE 2017 financial statement can be accessed through the City's website, <http://www.mylubbock.us/departamental-websites/departments/finance/home>.

^(a) As a result of the implementation of GASB Statement No.68, the City recorded a prior period adjustment to beginning net position.

TABLE 15 - GENERAL FUND REVENUES AND EXPENDITURES HISTORY

	Fiscal Year Ended September 30				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
REVENUES					
Taxes	\$ 122,406,450	\$ 119,035,952	\$ 115,411,347	\$ 107,092,546	\$ 103,075,174
Franchise Taxes	5,108,569	5,202,979	6,130,349	5,200,398	5,155,471
Fees and Fines	2,749,066	2,917,728	3,371,491	3,067,738	3,703,307
Licenses and Permits	3,274,043	3,568,885	3,004,539	2,821,135	2,625,478
Intergovernmental	579,676	607,935	565,000	530,454	528,725
Charges for Services	3,127,408	3,237,217	3,163,757	3,049,776	3,129,948
Interest	344,933	202,274	269,952	118,262	29,389
Miscellaneous	869,407	965,173	1,373,946	1,341,893	2,176,468
Total Revenues	\$ 138,459,552	\$ 135,738,143	\$ 133,290,381	\$ 123,222,202	\$ 120,423,960
EXPENDITURES					
Admin/General Gvnmt	\$ 13,030,973	\$ 12,542,566	\$ 11,566,547	\$ 12,605,166	\$ 12,041,031
Cultural and Recreation	14,612,768	13,659,547	13,306,576	13,151,427	13,310,080
Econ/Bus. Development	703,361	655,115	531,100	444,513	561,593
Health	4,016,911	3,727,939	3,714,639	3,338,590	2,618,467
Fire	48,018,088	46,375,621	43,831,366	42,039,679	40,017,335
Police	60,992,588	58,476,012	57,817,806	55,646,951	54,113,978
Other Public Safety	5,653,793	6,016,867	5,412,003	5,161,058	5,310,003
Streets and Traffic	6,699,009	7,121,050	7,206,794	6,881,852	6,504,464
General Obligation Debt	9,124,747	5,047,070	5,353,202	5,605,193	4,886,989
Capital Outlay	5,159,483	8,517,564	5,323,401	6,644,611	5,543,846
Total Expenditures	\$ 168,011,721	\$ 162,139,351	\$ 154,063,434	\$ 151,519,040	\$ 144,907,786
Excess (Deficiency) of Revenues and Transfers over Expenditures	\$ (29,552,169)	\$ (26,401,208)	\$ (20,773,053)	\$ (28,296,838)	\$ (24,483,826)
Long-term Debt Issued	\$ 10,066,596	\$ -	\$ -	\$ -	\$ -
Capital Leases	-	6,591,692	4,555,298	5,842,667	5,778,891
Transfers In	31,805,837	30,246,985	31,362,364	29,844,696	28,305,596
Transfers Out	(8,364,259)	(13,954,436)	(6,564,932)	(10,616,342)	(3,925,473)
Net Change in Fund Balance	3,956,005	(3,516,967)	8,579,677	(3,225,817)	5,675,188
Fund Balances -					
Beginning of Year	35,673,526	\$ 39,190,493	\$ 30,610,816	\$ 33,836,633	\$ 28,161,445
End of Year	\$ 39,629,531	\$ 35,673,526	\$ 39,190,493	\$ 30,610,816	\$ 33,836,633
Less: Assigned	-	-	-	(1,232,042)	-
Less: Nonspendable	(119,300)	(107,770)	(118,303)	(127,283)	(115,585)
Unassigned Fund Balance ^{(a)(b)}	\$ 39,510,231	\$ 35,565,756	\$ 39,072,190	\$ 29,251,491	\$ 33,721,048

^(a) The City changed its method of accounting for fund balances per GASB Statement No. 54 as of FYE 2011. Historical fund balance figures have not been restated.

^(b) The City's financial policies target a General Fund unassigned balance of at least 20% of operating revenues. The FYE 2017 unassigned fund balance is at 142.68% of the target established by the City's financial policies. At the beginning of FYE 2018, the City rolled its Solid Waste Enterprise Fund into the General Fund, which resulted in an increase in the unassigned fund balance. The City estimates its unaudited unassigned fund balance as of the beginning of FY 2018 would be at 152.8% of the policy target.

TABLE 16 - MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, Chapter 321, Texas Tax Code, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Bonds or other debt of the City. In addition, in January 1995, voters of the City approved the imposition of an additional sales and use tax of one-eighth of a cent as authorized by Chapter 323 Texas Tax Code, as amended. Collection for the additional tax commenced in October 1995 with the proceeds from the one-eighth cent sales tax designated for the use and benefit of the City to replace property tax revenues lost as a result of the adoption of the tax. At an election held in the City on November 4, 2003, voters approved an additional one-quarter cent sales and use tax, with the proceeds to be dedicated to the reduction of ad valorem taxation, and an additional one-eighth cent sales and use tax under Chapter 504 of the Texas Local Government Code to be used for economic development in Lubbock. The City began to receive proceeds of these taxes in October 2004. Collection and enforcement of the City's sales tax are effected through the offices of the Comptroller of Public Accounts, State of Texas. The Comptroller remits the proceeds of the tax to the City on a monthly basis after the deduction of a 2% service fee. Historical collections of the City's local Sales and Use Tax are shown below:

FYE 30-Sep	Total Sales Tax Collected^(a)	Per Capita^(b) Sales Tax Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate
2013	\$ 62,250,140	\$ 266.48	98.37%	\$ 0.4599
2014	64,650,937	273.64	96.95%	0.4571
2015	68,037,340	283.50	94.61%	0.4797
2016	67,978,112	277.62	86.89%	0.4527
2017	70,417,997	276.62	80.21%	0.4132

^(a) Excludes bingo tax receipts.

^(b) Based on population estimates of the City.

Effective as of October 1, 2006, the sales tax breakdown for the City is as follows:

	Sales Tax Allocation
City Sales & Use Tax	\$ 1.0000
City Sales & Use Tax for Property Tax Relief	0.3750
City Sales & Use Tax for Economic Development	0.1250
County Sales & Use Tax	0.5000
State Sales & Use Tax	6.2500
Total	<u>\$ 8.2500</u>

[Remainder of page left intentionally blank]

TABLE 17 - CURRENT INVESTMENTS

As of December 31, 2017, the City's investable funds were invested in the following categories:

Type	Par Value	Book Value		Estimated Market Value^(a)	
		Value	% of Total Book Value	Value	% of Total Market Value
United States Agency Obligations	\$ 67,465,776	\$ 67,491,380	12.68%	\$ 66,861,956	12.59%
Money Market Mutual Funds ^(b)	21,976	21,976	0.00%	21,976	0.00%
Municipal Bonds	47,660,000	47,934,354	9.01%	47,398,772	8.93%
Bank Accounts	4,175,765	4,175,765	0.78%	4,175,765	0.79%
Local Government Investment Pools ^(c)	412,590,893	412,590,893	77.52%	412,590,893	77.69%
	\$ 531,914,409	\$ 532,214,367	100.00%	\$ 531,049,361	100.00%

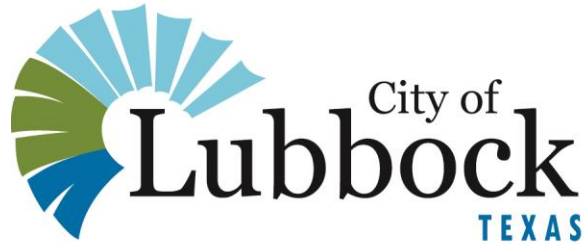
^(a) Market prices are obtained from Wells Fargo Brokerage. No funds are invested in mortgage backed securities. The City holds all investments to maturity which minimizes the risk of market price volatility.

^(b) Money Market Funds are held at The Bank of New York Mellon Trust Company, N.A.

^(c) Local government investment pools consist of entities whose investment objectives are preservation and safety of principal, liquidity, and yield. The pool seeks to maintain a \$1.00 net asset value per share as required by the PFIA.

[Remainder of page left intentionally blank]

APPENDIX B
EXCERPTS FROM ANNUAL FINANCIAL REPORT FOR THE
YEAR ENDED SEPTEMBER 30, 2017



**P.O. Box • 1625 13th Street • Lubbock, Texas 79457
(806) 775-0000 • Fax (806) 775-0001**

February 7, 2018

Honorable Mayor, City Council, and Citizens of Lubbock, Texas:

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the City of Lubbock, Texas (City) for the fiscal year ended September 30, 2017. The purpose of the CAFR is to provide accurate and meaningful information concerning the City's financial condition and performance. In addition, independent auditors have verified that the City has fairly presented its financial position, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

The CAFR satisfies Section 103.001 of the Texas Local Government Code requiring annual audits of all municipalities. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe the data is accurate in all material respects and is presented in a manner that fairly sets forth the financial position and results of the City. We also believe all disclosures necessary to enable the reader to gain an understanding of the City's financial affairs are included. To provide a reasonable basis for making these representations, City management has an established comprehensive internal control framework that is designed: 1) to protect the City's assets from loss, theft, or misuse; and 2) to compile sufficient, reliable information for the preparation of the City's financial statements, in conformity with Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement.

The City's financial statements were audited by BKD, LLP, a licensed certified public accountants' firm. The goal of the independent audit is to provide reasonable assurance that the financial statements are free of material misstatement. The independent audit involves:

- examining evidence on a test basis that supports the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

Honorable Mayor, City Council,
And Citizens of the City of Lubbock, Texas
February 7, 2018

The independent accountants concluded that the City's financial statements are in conformity with GAAP, are fairly presented, and there is a reasonable basis for providing an unmodified opinion. The independent auditor's report is presented as the first component of the financial section of this report.

The independent accountants' audit of the City's financial statements is part of a broader, federally mandated "Single Audit," which is designed to meet the special needs of federal granting agencies. These reports are available in the City's CAFR. The standards governing Single Audit engagements require the independent auditor to report on several facets of the City's financial processes and controls:

- fair presentation of the financial statements,
- internal controls over financial reporting and the administration of federal awards, and
- compliance with legal and grant requirements.

GAAP requires management to provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A. The City's MD&A is found immediately following the report of the independent auditors.

CITY OVERVIEW

Description of the City

The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City was incorporated in 1909 and first adopted its Home Rule Charter in 1917. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six Council members. The Mayor is elected at-large for a two-year term ending in an even-numbered year. Each of the six members of the City Council is elected from a single-member district for a four-year term of office. City Council elections are held every two years, with elections for Council members in Districts 1, 3, and 5 being staggered with elections for Council members in Districts 2, 4, and 6. The City Manager is the chief administrative officer of the City.

The City is empowered to levy a property tax on both real and personal properties located within its boundaries. It is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically as the City Council deems appropriate. The 2010 Census population for the City was 229,573; the estimated 2017 population is 254,565. The City covers approximately 129 square miles.¹ The organizational chart of the City is shown following the transmittal letter.

In accordance with generally accepted accounting principles and Codification of Governmental Accounting Standards, Section 2100, "*Defining the Financial Reporting Entity*," these financial statements present the City (the primary government) and its component units. The component units discussed below are included in the City's financial reporting entity because of the significance of their operational or financial relationship with the City. The criteria established by the GASB for determining the reporting entity includes financial accountability and whether the financial statements would be misleading if data were not included. West Texas Municipal Power Agency (WTMPA) and the Lubbock Metropolitan Planning Organization are blended component units. Discretely presented component units include Urban Renewal Agency (URA), Civic Lubbock, Inc., Market Lubbock Economic Development Corporation, dba Market Lubbock, Inc., Lubbock Economic Development Alliance, and the Vintage Township Public Facilities Corporation. Additional information on the component units is found in the footnotes.

¹ City of Lubbock GIS Department.

City Services

The City provides a full range of services including public safety (police and fire services), electric, water, wastewater, storm water, solid waste, public transportation (airport and transit), health and social services, cultural and recreation, highways and streets, planning and zoning, and general administrative services.

Public Safety: The Police Department serves and protects the public by conducting criminal investigations and enforcing laws governing public safety and order. As part of an effort to reach the goal of two officers for every 1,000 residents, the Police Department hired 84 new police recruits in FY 2017. As of September 30, 2017, the Police Department was staffed with 411 sworn officers plus an additional 25 Police Academy Recruits. In FY 2017, the Police Department had 341,211 responses to primary and backup dispatched calls for service with an average response time to Priority 1 calls of 4.59 minutes.

The Lubbock Fire Department is dedicated to providing unparalleled emergency response and life safety services for the City. As of September 30, 2017, the Fire Department operated 19 fire stations and was staffed with 404 sworn firefighters. The construction of Fire Station 1 began in August 2015 and was completed December 2016. The construction of a new Emergency Operations Center began in December 2016 and is expected to be completed in early 2018. Improvements continue for fire stations citywide as a result of funding for renovations appropriated in the FY 2016 budget. We will continue to improve and renovate our facilities with \$300,000 allocated for FY 2018. In FY 2017, the Fire Department responded to 18,307 calls, or an average of 50 calls per day.

Electric Utility: The City's municipally owned electric utility system, known as Lubbock Power and Light (LP&L), was established in 1916, and is at present the largest municipal system in the West Texas region and the third largest municipal system in the State of Texas. Electric service in the City is provided by LP&L, South Plains Electric Cooperative, and Southwestern Public Service (SPS). LP&L owns and maintains 105,788 meters as of September 30, 2017, 37 substations, 4,322 total miles of primary and secondary distribution lines, and approximately 105 miles of transmission lines. The average daily electric consumption is roughly 7.309 MWh.

On November 2, 2004, Lubbock voters elected to amend the City Charter to provide for an Electric Utility Board (EUB), which governs, manages, and operates LP&L today. The City Council retains authority for appointment of board members, approval of the operating and capital budget, approval of rates for electric service, eminent domain, and approval of debt financing.

A Transaction Agreement for Total Requirements Power Service (SPS Power Agreement) between the West Texas Municipal Power Agency (WTMPA) and SPS provides that SPS serve the entire capacity and energy requirements of WTMPA members (of which LP&L is a member). The term of the agreement is through the hour ending at midnight on May 31, 2019, unless cancelled earlier. After the termination of the SPS Power Agreement, capacity and energy supply will be provided by a 170MW partial requirements contract with SPS, effective June 1, 2019 through May 31, 2044; a 400MW Capacity and Energy Scheduling Contract with SPS, effective June 1, 2019 through May 31, 2021; a 100.8MW power purchase agreement between WTMPA and Elk City II Wind, LLC, effective June 1, 2019 through May 31, 2032; and 112 MW of dependable natural gas fired generation, with approximately 112MW anticipated to be available in 2019 to meet LP&L's load requirements.

On September 24, 2015 LP&L announced it's the intent to join the Electric Reliability Council of Texas (ERCOT). Shortly after the announcement, LP&L initiated the process to formally join the Texas intrastate electric grid, and in February 2016 the PUC established Project No. 45633, Project to Identify Issues to Lubbock Power & Light's Proposal to become part of the Electric Reliability Council of Texas (the "Project"). In March 2016, LP&L submitted a transmission integration study into the Project at the request

Honorable Mayor, City Council,
And Citizens of the City of Lubbock, Texas
February 7, 2018

of the PUC, and ERCOT submitted its transmission integration study into the Project in June 2016. LP&L's transmission integration study was conducted by expert engineering consultants who worked in close coordination with LP&L staff. At the June 2016 PUC Open Meeting, the PUC identified the need for joint cost-benefit studies by SPP and ERCOT followed by a public interest determination docket and a Certificate of Convenience and Necessity ("CCN") case. In addition to the cost-benefit studies conducted by SPP and ERCOT, LP&L performed its own cost-benefit analysis, looking closely at every technical component of the future transition. On June 30, 2017 and July 7, 2017 ERCOT and SPP respectively filed their studies with the PUC and on September 1, 2017 LP&L filed its study and submitted its formal application to join ERCOT.

The filing of Lubbock's application with the Public Utility Council followed two years of extensive studies and research conducted by multiple stakeholders, including LP&L, to determine how Lubbock's entry to the ERCOT would affect ERCOT, SPP and Lubbock ratepayers. LP&L requested the initiation of the formal PUC hearing on the merits to determine if LP&L's transition to ERCOT is in the public interest. The PUC established Project No. 47576, Application of the City of Lubbock through LP&L for Authority to Connect a Portion of its System with the ERCOT, and developed a procedural schedule that LP&L believes will allow sufficient time for the contested case to be conducted and to receive a decision by the PUC in the first quarter of 2018.

Once the PUC has approved LP&L's interconnection with ERCOT, additional infrastructure needs to be constructed to connect the LP&L system to the ERCOT power grid. A CCN case is expected to be initiated shortly after receiving PUC approval in the public interest docket, if received.

Capital projects currently included in LP&L's existing long-term capital improvement plan are largely related to reliability and will cover a portion of system improvements necessary prior to a final transition. Additional areas of construction needed, such as new transmission lines and substations, will be studied and decided upon as part of the CCN case to take place through the PUC. The load proposed to interconnect with ERCOT excludes all load related to the partial requirements agreement with SPS and the load related to the WTMPA Elk City wind agreement. The SPS and Elk City loads will continue being served in SPP. LP&L intends to honor the terms of the partial requirements contract by receiving power and energy from SPS on the distribution system connected to SPS's transmission system. This portion of LP&L load will remain in SPP during the term of the agreement and is not included in the load interconnected to ERCOT.

West Texas Municipal Power Agency: In 1983, the cities of Lubbock, Brownfield, Floydada, and Tulia (Cities), created the West Texas Municipal Power Agency (WTMPA) as a joint power agency. WTMPA is a municipal power agency created to enhance the negotiating strength of the Cities in obtaining favorable electric power contracts and in coordinating joint planning for additional generation. WTMPA is governed by an eight-member Board of Directors. The board consists of two directors from each of the Cities; however, an affirmative vote of the "majority in interest" is required to approve the operating budget, capital projects, debt issuance, and any amendments to WTMPA rules and regulations. One member is elected as the president who presides over monthly meetings. Directors serve without compensation. WTMPA has no employees and instead contracts for services to meet its general operating needs. WTMPA may engage in the business of generation, transmission, sale, and exchange of electric energy to the Cities. WTMPA may also participate in power exchange of electric energy to the Cities. WTMPA may also participate in power pooling and power exchange agreements with other entities. The City of Lubbock maintains the "majority in interest" vote based on kilowatt purchases and consequently has majority voting control. As the City purchases approximately 95.4 percent of the electricity brokered, WTMPA provides services almost exclusively to the City and is therefore presented as a blended enterprise fund. Separate audited financial statements are available through the City.

Water Utility: The City's current Strategic Water Supply Plan was adopted by the City Council in February 2013. The Plan includes an emphasis on water conservation strategies and includes strategies for supplying Lubbock for the next 100-years. The City also works closely with the Region O Water Planning Group in contributing to the preparation of a portion of the State Water Plan, which includes the City's water supply needs and alternatives.

The City used a total of 12.02 billion gallons of water in FY 2017. The City's 5-year average per capita consumption for FY 2017 was 156 gallons per capita per day (gpcd). The peak capacity of the City's water supply and treatment was 80 million gallons per day, with an average utilization of 32.4 million gallons per day.

The City receives its water from four different sources: Roberts County Well Field, Lake Meredith, Bailey County Well Field, and Lake Alan Henry. The Roberts County Well Field and Lake Meredith are owned by the Canadian River Municipal Water Authority (CRMWA). Lubbock is one of CRMWA's eleven member cities. The Bailey County Well Field and Lake Alan Henry are owned by the City.

The City obtained 7.75 billion gallons of its annual water supply from CRMWA in FY 2017. At the beginning of FY 2012, Lake Meredith reached its lowest historical level and was no longer usable. Lake Meredith water levels began rising again about four years ago. It is now at 40.5% of its capacity. For the past two fiscal years, CRMWA used water from Lake Meredith. Currently, CRMWA is blending groundwater from the Ogallala Aquifer in Roberts County with some surface water from Lake Meredith to help meet the needs of member cities. CRMWA owns 407,566 acres of ground water rights with an estimated 22 million acre-feet of water within those rights. CRMWA can deliver up to 65,000 acre-feet of water to its member cities each year from the Roberts County Well Field. They supply additional water from Lake Meredith throughout the year to increase peak capacity by 10 million gallons per day. The aqueduct supplying water to the southern cities cannot be filled with the existing well field infrastructure and water supplied from Lake Meredith. Therefore, CRMWA is securing easements for a new pipeline route to construct a second transmission line (CRMWA II) from the well field to the aqueduct. This allows for the full utilization of the aqueduct to the southern cities. CRMWA II's estimated completion is sometime after 2020 when all of the member cities need the additional water.

Bailey County Well Field contains 175 active water wells with 83,305 acres of water rights, providing 1.89 billion gallons of the City's annual water supply in FY 2017. In October 2011, the City completed the construction of eight additional wells to maintain the well field production rates. The City is planning to add additional wells to the Bailey County Well Field to restore a portion of the well field production capacity.

The City finished construction on Lake Alan Henry in 1993. In 2010, the City began construction on Phase I of the Lake Alan Henry project that included two new pump stations, a 51-mile raw water pipeline from the Lake to the City, a new South Water Treatment Plant with membrane technology, and 19 miles of treated water transmission lines. Phase I of the Lake Alan Henry project was completed in August 2012 and is capable of providing 15 million gallons of water per day to the City. Lake Alan Henry supplied 2.37 billion gallons of the City's annual water supply in FY 2017. The lake is currently at greater than 87% of its capacity. The South Water Treatment Plant includes a 225 million gallon terminal storage reservoir and a high service pump station to transfer the treated water into the City's distribution system.

The City provides water service to over 82,761 meters through 1,727 miles of distribution lines as of January 1, 2017. The City also provides treated wholesale water to Shallowater, Ransom Canyon, Buffalo Springs Lake, Reese Redevelopment Authority, Lubbock Cooper ISD, and Roosevelt ISD.

Wastewater Utility: Wastewater collection and treatment is provided within the city limits to residential, commercial, and industrial customers. As of December 31, 2016, the collection system consisted of

approximately 1,152 miles of sanitary sewer lines and 34 lift stations. The wastewater treatment plant has a permitted capacity of 31.5 million gallons per day and an average utilization of approximately 19 million gallons per day. The peak utilization of the wastewater treatment plant is 25 million gallons per day. The treated wastewater is disposed of or reused in various ways. In 2017, approximately 52 percent of the wastewater was used to irrigate crops at the Lubbock Land Application Site and at the Hancock Land Application Site. In addition, Xcel Energy used approximately 7 percent of the treated wastewater and 41 percent was discharged into the North Fork of the Double Mountain Fork of the Brazos River. Dewatered solids generated during the wastewater treatment process are hauled and disposed of at the City's regional solid waste landfill in Abernathy, Texas.

As part of the City's Strategic Water Supply Plan, projects are underway to improve the quality of the treated wastewater so it can be reused in beneficial ways. The City completed Phase I, Phase II, and the Digester Upgrade of Phase III of a four-phase project to upgrade the Southeast Water Reclamation Plant. Phase I provided upgrades and improvements to the influent lift station. Phase II incorporated upgrades to Plant 3 for filtration and ultraviolet disinfection, and Plant 4 for biological nutrient removal, filtration, and ultraviolet disinfection. Phase III included design and construction improvements to anaerobic digesters and the solids handling facility. The upgrades to digesters No. 8 and No. 9 were completed in May 2013 and included new covers, mixing system, heating system, and gas piping. Construction began in May 2014, on the upgrades to the solids handling facility and will be complete in January 2018. The upgrades implement new sludge thickening and dewatering equipment, sludge holding tank upgrades, odor control for the solids handling facility a headworks influent lift station, and sludge loading facilities. Phase IV includes upgrades to Plant 3 for biological removal. Design for rehabilitation of Plant 3 clarifiers and improved aeration capabilities is expected to begin in 2018. These efforts will improve the quality of the City's effluent discharge and prepare it for future reuse opportunities. The high quality effluent can be discharged into the North Fork.

The 2008 Wastewater Master Plan recommended several improvements to the collection system in order to meet population growth as well as aging infrastructure replacement needs. The South Lubbock Sanitary Sewer System Expansion Phase I and II are complete and Phase III is under design. This project consists of engineering design and construction of large diameter sanitary sewer interceptors for the expansion of the existing sanitary sewer system. In addition, the Canyon Lakes Interceptor Rehabilitation project is under construction and will replace deteriorated line and manholes to improve aging infrastructure. Construction of the Northwest Water Reclamation Plant began in February 2015 and is expected to be substantially complete the first quarter of 2018. The new plant will relieve the surcharge of sewer mains serving north Lubbock. The project will include a new membrane filtration reclamation plant, a new raw wastewater diversion pipeline and a lift station, a new solids wastewater line, and a new outfall line, with anticipated completion at the end of 2017. The City is updating the Wastewater Master Plan to evaluate the existing collection system and provide a new master plan for meeting the City's expected development and growth.

Storm Water Utility: The City's storm water run-off is primarily conveyed through the City's street system that discharges into 146 playa lakes. The subsurface drainage, via storm sewer pipes with curb inlets and intake structures, conveys water to two small intermittent streams (Blackwater Draw and Yellowhouse Draw) which both converge at the upper reaches of the North Fork of the Double Mountain Fork of the Brazos River.

The City's municipal separate storm sewer system (MS4) is made up of approximately 1,189 miles of paved and unpaved streets, 559 linear miles of paved and unpaved alleys, 1,240 storm sewer inlets, 96 miles of subsurface storm sewer pipe, six detention basins, 146 playa lakes, and one pump station. Maintenance of all of the storm sewers, including street cleaning, is funded through storm water fees.

Three major projects were the focus for FY 2017: Storm Water Master Plan, Storm Water Management Plan (SWMP), and Complete Phase 2 Design of Northwest Lubbock Drainage Project. The Storm Water

Master Plan is a multi-year project that provides a comprehensive, holistic approach to storm water management. This project updates the Drainage Criteria Manual (1997) and the Master Drainage Plan (2010), which are the primary documents that regulate development, guide drainage design, and identify improvement projects. The Storm Water Management Program implements changes to achieve compliance with the City's MS4 Permit Renewal issued by the Texas Commission on Environmental Quality (TCEQ) in August of 2015. When completed with all phases, the Northwest Lubbock Drainage Project will connect six playa lakes to a new drainage system to help reduce the risk of flooding in the northwest region of Lubbock.

Solid Waste Utility: The City provides garbage collection and disposal services to 73,282 residential customers and 2,747 commercial customers. One of the City's two landfill sites is the Caliche Canyon Landfill and includes a citizen transfer station. The second site is the West Texas Regional Disposal Facility located in Abernathy, Texas, which opened in 1999 and is one of the largest permitted areas for a landfill in the State of Texas. With 1,260 acres, the expected useful life of this landfill is 124 years.

Public Transportation: A key component of Lubbock's transportation system is the Lubbock Preston Smith International Airport, located seven miles north of the City's central business district on 3,000 acres of land adjacent to Interstate 27. The Airport is operated as a department of the City, with the guidance of an advisory board, and includes a 220,000 square foot passenger terminal building. The Airport has two commercial service runways, 11,500 and 8,000 feet in length. Air traffic control services include a 24-hour Federal Aviation Administration control tower and a full range of instrument approaches. The Airport is served by three major passenger airlines and two major cargo airlines. It facilitates over 40 commercial flights per day. A project to rehabilitate the 11,500 foot runway was completed during FY 2016-17. The next major initiative is a multi-year project to renovate the terminal building.

Citibus provides public transportation for the City of Lubbock and is managed by McDonald Transit Associates, Inc. Transit services provided by Citibus include Fixed Route, CitiAccess (paratransit), Evening (NiteRide), in addition to other special services. There are nine fixed routes that traverse the City. The Citibus evening service is designed to meet the needs of CitiAccess and fixed route passengers who make use of public transportation. CitiAccess is a curb-to-curb service for passengers in the community who are unable to utilize the regular fixed route service. A majority of evening service passengers work at night and utilize the service for afterhours transportation to and from their jobs. In addition to the above transportation services, Citibus provides route service to Texas Tech University and surrounding apartment complexes with 35 buses. Citibus is also the contracted agent for passenger sales and freight shipping/receiving for Greyhound Lines, Inc., which operates from the Citibus Downtown Transfer Plaza.

Health and Social Services: The City has a housing and community development program implemented and administered through funding from the federal Community Development Block Grant (CDBG) Program, HOME Investment Partnership Program (HOME), and Emergency Shelter Grant (ESG) Program. With these programs, the City completed work on 91 houses in FY 2017 through the use of CDBG and HOME funds and assisted 1,983 individuals through the ESG Program with emergency shelter and essential homeless prevention services.

The City also received funding from the Texas Department of Housing and Community Affairs, which allowed the City to offer additional programs to its citizens. Through these programs in FY 2017, 45 households received assistance in repairing the heating and/or cooling systems in their homes; 812 households received utility assistance; and 21 individuals graduated from the Self-Sufficiency Program.

Cultural and Recreation Activities: The City provides cultural and recreation services through 4 libraries and 81 parks with 60 playgrounds. Other recreational facilities include 4 swimming pools, 61 tennis courts, 53 baseball and softball fields, 50 soccer fields, 3 disc golf courses, a cultural arts center, 5

Honorable Mayor, City Council,
And Citizens of the City of Lubbock, Texas
February 7, 2018

community centers, and 5 older adult activity centers. To further enhance quality of life and to provide support to tourism, the City operates the Memorial Civic Center, the City Bank Coliseum and Auditorium, the Buddy Holly Center, the Wells Fargo Amphitheatre, and the Silent Wings Museum.

The City is financially accountable for a legally separate civic services corporation (Civic Lubbock, Inc.), which is reported separately within the City's financial statements as a discretely presented component unit. Additional information on this legally separate entity is found in the notes to the financial statements.

Highways and Streets: The City is responsible for the construction and maintenance of 1,178 miles of paved streets, 57.4 miles of unpaved streets, and 624 miles of paved and unpaved alleys.

In 2004, the City Council established the Gateway Streets Program. The program, funded with 40 percent of the franchise fees collected by the City, opens areas of the City for development through thoroughfare construction. The Gateway Streets Program consists of the Northwest Passage, City thoroughfare streets, and Texas Department of Transportation (TxDOT) improvements in northwest Lubbock, as well as other thoroughfare improvements located in southwest Lubbock.

The City thoroughfare streets recently completed include: 98th Street between University Avenue and Interstate 27 and North University Enhancement Project's Phase 3 to improve the pedestrian way along University Avenue from the Marsha Sharp Freeway to Amherst Street.

Other major street improvement projects under construction include the following:

- The continuation of the City-wide street maintenance program. The City Street Maintenance Program has a goal of achieving an average Pavement Condition Rating for the entire city of 80. The current rating is 71 and the program is funded for FY 2018.
- The widening of Erskine Avenue from Quaker/Loop 289 interchange east to Indiana Avenue began in early 2017. This project will enhance the increased mobility of the Northwest Passage Projects.
- The design of 98th Street from Upland Avenue to Milwaukee Avenue began in December 2016. Construction is anticipated to begin in early 2018 with a completion in late 2018.
- The design of Phases 3 and 4 of 34th Street from Slide Avenue to Quaker Avenue and Avenue Q to Interstate 27 are underway and anticipated to be completed in early 2018.

Annual Budget Process

The annual operating budget serves as the foundation of the City's financial planning and control. All City departments submit requests for appropriation to the City Manager each year. The City Manager uses these requests as the starting point for developing the proposed Operating Budget and Capital Program. The City Manager then presents the proposed Operating Budget and Capital Program to the City Council for review, as required by City Charter. The City Council is required to hold a public hearing on the proposed Operating Budget and Capital Program and to adopt it no later than September 30, the close of the City's fiscal year. The adopted Operating Budget and Capital Program appropriates funding at the departmental level in the General Fund, at the fund level in the other funds, and at the project level in the Capital Program. For FY 2018, the adopted Operating Budget and Capital Program appropriates funding at the fund level for all funds and at the project level in the Capital Program.

The General Fund Operating Budget is adopted on a basis other than GAAP, with the main difference being that related capital outlays are not budgeted. Budgetary control is maintained at the fund level.

Management may make administrative transfers and increases or decreases between accounts below the department level without City Council approval. However, any transfer of funds between departments, the legal level of control, or higher level shall be presented to City Council for approval by ordinance before such funds can be transferred between departments or expended. For FY 2018, the legal level of control is at the fund level. Transfers between departments will no longer be presented to City Council. All annual operating appropriations lapse at the end of the fiscal year. Capital Project and grant appropriations do not lapse at fiscal year end, but remain in effect until the project or grant is completed and closed.

ECONOMIC CONDITION AND OUTLOOK

The information presented in the financial statements is best understood when it is considered within the context of the City's economy. The following information is provided to highlight a broad range of economic forces that support the City's operations.

Local Economy

Concurrent trends in two broad measures of the Lubbock economy best represent its current and ongoing health and status: general consumer spending (retail sales), and payroll employment.² Economic indicators, including sales tax receipts, construction activity, and unemployment all suggest that Lubbock will continue to see solid future growth and expansion.

Lubbock has a stable economy with historically consistent and steady growth. Over the past forty years, Lubbock's agriculturally-based economy has diversified, which has minimized the effects of business cycles experienced by individual sectors.

The Southern High Plains District, comprised of 16 counties surrounding Lubbock, is one of the most productive agricultural areas in the United States. In 2017, 24.2 percent of the nation's upland cotton crop and 44.2 percent of the state's upland cotton crop were planted by farmers in the Southern High Plains District. The Southern High Plains production was 3,215,000 bales, down 4.3 percent from the 3,360,000 bales in 2016.³

The City has strong manufacturing, wholesale and retail trade services, health care, education, and government sectors. Manufacturing includes a diverse group of employers who support approximately 4,700 workers.⁴ A central location and access to transportation have contributed to Lubbock's development as a regional warehousing and distribution center. Lubbock serves as the major retail trade center for a 26-county retail trade area of more than a half million people.

Lubbock is home to three universities and one community college: Texas Tech University, Lubbock Christian University, Wayland Baptist University – Lubbock Center, and South Plains College. Fall 2017 enrollment for all higher education institutions in Lubbock was 53,803, an increase of 1.4 percent from the Fall 2016 enrollment of 53,056. The increase was due to enrollment increases at Wayland Baptist University, Texas Tech, and Texas Tech Health Science Center, which offset slight decreases experienced at Lubbock Christian University and South Plains College. Texas Tech has set a goal to reach enrollment

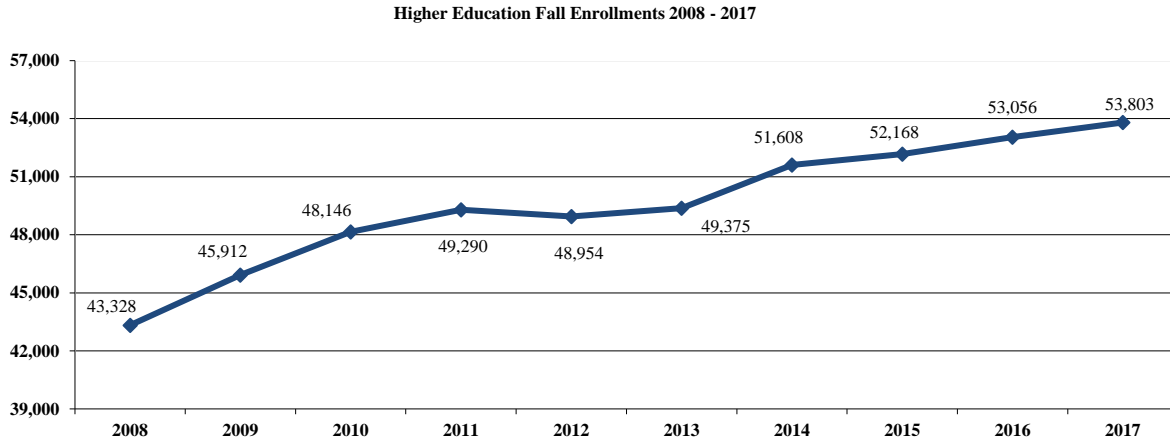
² Ingham Economic Reporting, September-2017, Lubbock Economic Index and Consumer Price Index, Amarillo, Texas: Karr Ingham.

³ United States Department of Agriculture, National Agriculture Statistics Service, retrieved from http://www.nass.usda.gov/Quick_Stats/. (Figures are preliminary and will be updated as information becomes available.)

⁴ Texas Workforce Commission, *MSA Employment and Unemployment Data*, September 2017. (Figures are preliminary and will be updated as information becomes available.)

Honorable Mayor, City Council,
And Citizens of the City of Lubbock, Texas
February 7, 2018

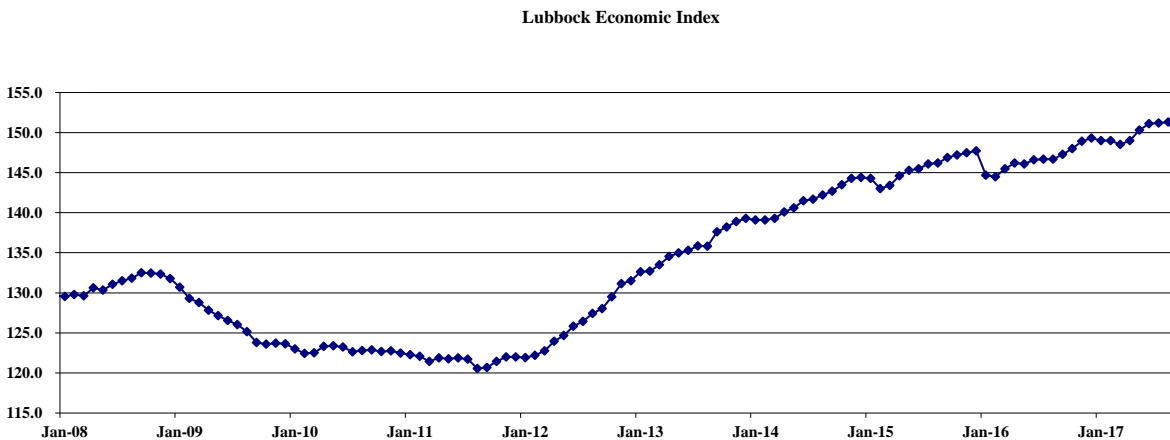
of 40,000 students by 2020. The availability of graduates in the City is an added advantage to local industries as the universities and colleges continue to produce a ready source of qualified labor.



The health care and social assistance sector is also a vital component of the Lubbock economy, with 23,151 employees and payroll exceeding \$1 billion.⁵ Lubbock is home to several medical facilities including: University Medical Center, Covenant Medical Center, The Lubbock Heart Hospital, and Grace Medical Center. The Texas Tech University Health Sciences Center also provides health care, as well as training and research opportunities for health care professionals.

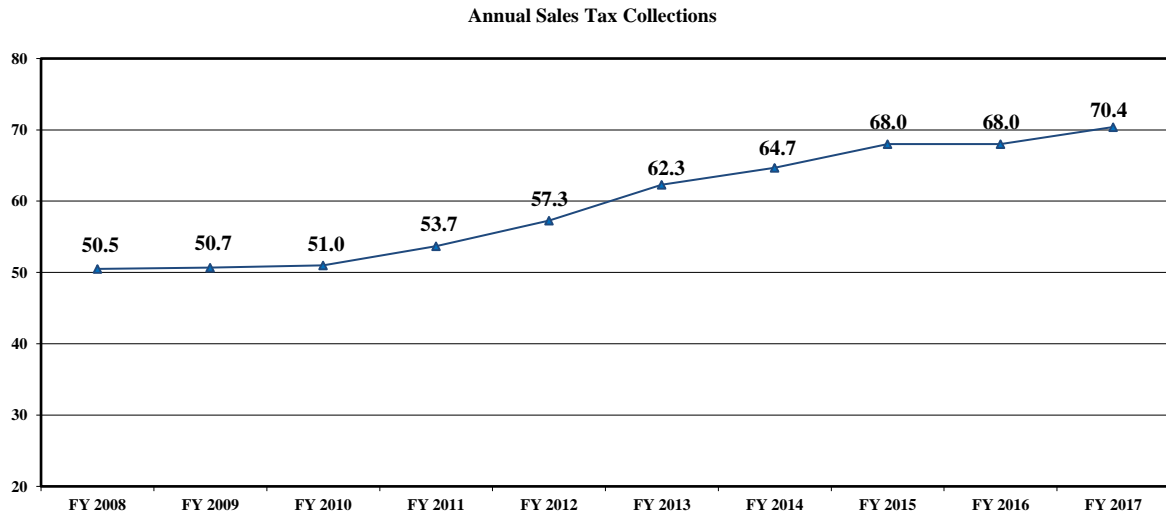
Lubbock Economic Index: The Lubbock Economic Index is designed to represent the general condition of the Lubbock economy by tracking local economic indicators. The base year for the index was 1996, when the index was set at 100. The preliminary economic index received for September 2017 was 151.7, which represents an increase of 3.1 percent from the final September 2016 level of 147.2.

Due to the impact of the national recession, the Lubbock Economic Index declined from October 2008 to August 2011. In September 2011, the trend reversed and the economic index began showing signs of recovery until it finally reached the pre-recession level in January 2013 and has continued to rise since that time. The Lubbock Economic Index maintained a positive trend in 2017.

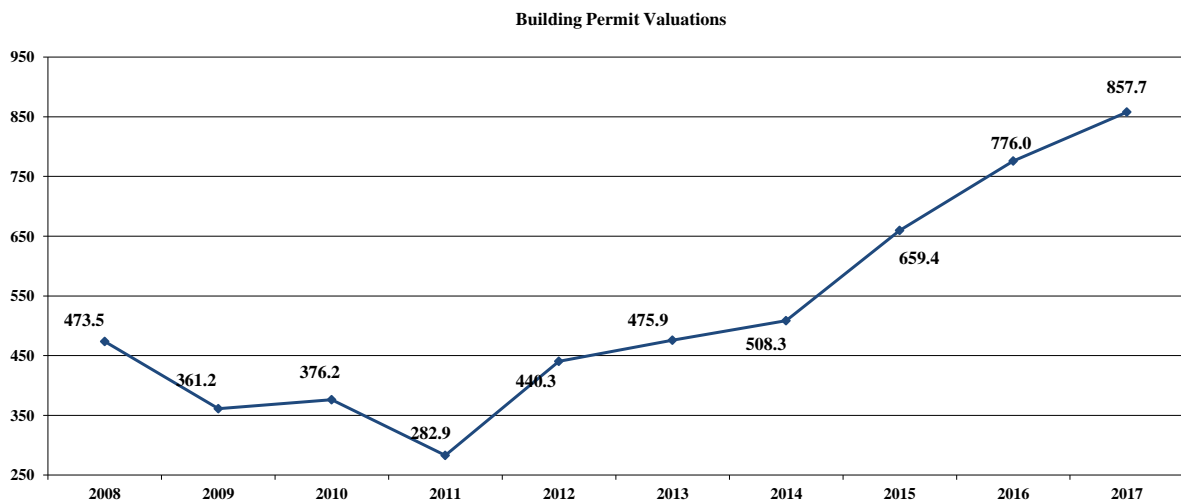


⁵ U.S. Census Bureau, 2015 County Business Patterns, retrieved from <http://censtats.census.gov/cgi-bin/cbpnaic/cbpsect.pl> (2-year delay in publication).

Sales Tax Collections: Sales tax collections in FY 2017 totaled \$70,417,997, 3.6 percent higher than collections through the same period in FY 2016.



Building Permit Valuations: The construction sector experienced an increase during 2017, with the value of all building permits issued through December up 10.5 percent from the same period in 2016. The \$857.7 million in building permits issued through December 2017 is a significant increase from the \$282.9 million issued through December 2011. The yearly comparison is below:

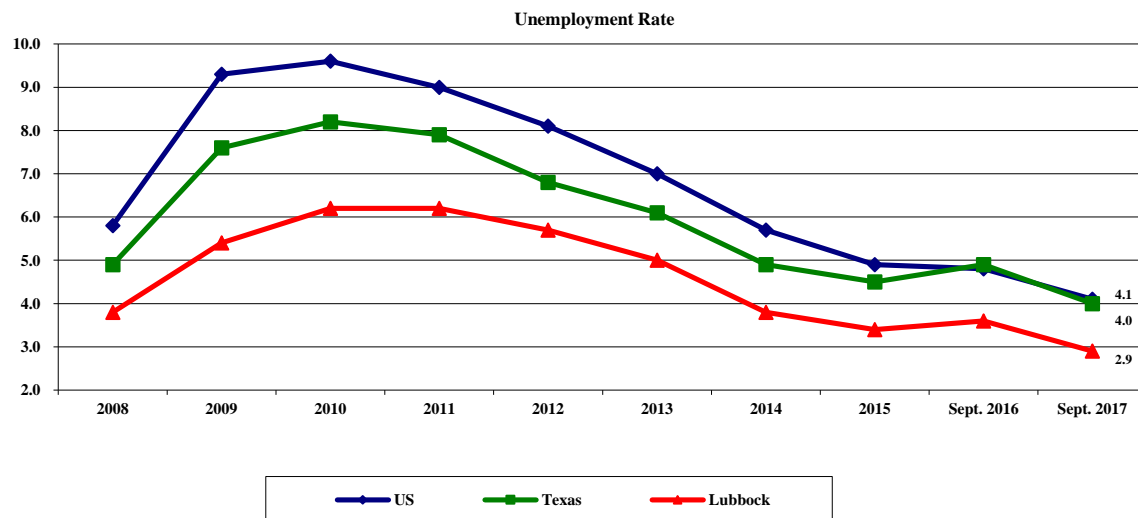


New residential permits totals issued through December decreased in 2017. The total new residential valuations were \$395.7 million, 6.0 percent lower than the same time period in 2016.⁶ The preliminary average home sales price for FY 2017 was \$177,683, an increase of 2.1 percent over FY 2016.⁷

⁶ City of Lubbock Building Inspection Department, December 2017 and December 2016 *Building Inspection Statistical Report*.

⁷ Texas A&M University Real Estate Center, *Lubbock MLS Housing Activity Report (November 2017)*, retrieved from <http://recenter.tamu.edu/data/dataahs.html> (Figures are preliminary and will be updated as information becomes available.)

Employment: The total non-agricultural employment estimate for September 2017 was 147,700, an increase of 1.4 percent over the revised September 2016 estimate of 145,700. The unemployment rate for the Lubbock Metropolitan Statistical Area (MSA) in September 2017 was 2.9 percent, marking the lowest rate since 1999. Historically, Lubbock has had a low rate of unemployment that is well below the national and state unemployment rates.⁸



ECONOMIC DEVELOPMENT

In 1995, the City Council created Market Lubbock, Inc. (MLI), a non-profit corporation to oversee economic development for the City. MLI is funded with .02315 cents of the property tax allocation. In October 2004, the Lubbock Economic Development Alliance (LEDA), an economic development sales tax corporation, assumed responsibility for economic development. LEDA program strategies include business retention, business recruitment, workforce development, foreign trade zone, and the bioscience initiative. LEDA is funded by a 1/8 cent economic development sales tax. Total allocated tax revenues for MLI and LEDA for FY 2017 were \$8,799,352.

The City's Finance Department is responsible for tracking and maintaining economic and demographic information for the City, assisting with city-related business issues, the enterprise zone and tax abatement programs, three Tax Increment Financing Reinvestment Zones, and all Public Improvement Districts.

Lubbock Business Park: The Lubbock Business Park (Park) is a 586-acre tract of land located off of Interstate 27, approximately one mile south of Lubbock Preston Smith International Airport. The Park is being developed by LEDA as a recruitment tool to assist in the recruitment of new businesses to the area. The Park has shovel ready lots available for businesses who would like to relocate to Lubbock or expand an existing business.

The City of Lubbock, Lubbock County, Lubbock Hospital District, and High Plains Underground Water District are participating in this public/private project with the creation of a Tax Increment Financing Reinvestment Zone that will assist in funding the public infrastructure necessary to develop the Park.

⁸ Texas Workforce Commission, *MSA Employment and Unemployment Data*, September 2017. (Figures are preliminary and will be updated as information becomes available.)

Honorable Mayor, City Council,
And Citizens of the City of Lubbock, Texas
February 7, 2018

According to the latest Project and Finance Plan for the Lubbock Business Park Tax Increment Financing Reinvestment Zone (LBP Zone), there are planned expenditures of approximately \$45.2 million for public infrastructure improvements, which will result in an increase in taxable value of approximately \$208.2 million over the LBP Zone's 30-year life. The 2017 appraised value of the LBP Zone is \$56.5 million with a net taxable value of \$54.6 million, which is a \$54.2 million increase over the 2009 base year value.

Overton Park: Overton Park, a former blighted area called North Overton, is a 300-acre revitalization project adjacent to the downtown area of Lubbock. Projects that have been constructed in Overton Park since the beginning of the redevelopment include: nine student-oriented apartment complexes; The Centre, an apartment complex built over upscale retail; City Bank; Super Wal-Mart; The Overton Hotel and Conference Center; Racer Car Wash; condominiums; and many small specialty restaurants and retail establishments. In FY 2017, construction of Haven Campus Communities II, a 556-bed student-oriented apartment complex, and a 1,204-bed student apartment complex built by American Campus Communities was completed.

The City of Lubbock, Lubbock County, Lubbock Hospital District, and High Plains Underground Water District are participating in this public/private project with the creation of a Tax Increment Financing Reinvestment Zone that has funded the replacement of the 80-year old infrastructure. According to the Project and Finance Plan for the North Overton Tax Increment Financing Reinvestment Zone (Overton Zone), there were planned expenditures of \$62.3 million (Phase 1 and 2, not including interest on debt), of which \$41 million has been expended as of September 30, 2017, for the replacement and upgrade of public improvements including roads, water, sewer, relocation underground of the electric infrastructure, lighting, and landscaping in the parkway. Based on current estimates, these improvements will result in an increase of taxable value of approximately \$520 million over the Overton Zone's 30-year life. The 2017 appraised value of the Overton Zone is \$543.9 million, which is a \$516.9 million increase over the 2002 base year value.

North and East Lubbock Neighborhood and Infrastructure Fund: Lubbock City Council passed a resolution on May 9, 2013, to create the North and East Lubbock Neighborhood and Infrastructure Fund (NELNI) to provide a source of funding for downtown redevelopment, neighborhood and infrastructure projects, and other community development projects. The revenue for the fund is 90 percent of the oil and gas revenues that historically went to the General Fund.

The Lubbock community, at-large, has experienced growth. However, the north and east Lubbock communities have experienced population destabilization, economic instability, and housing deterioration.

The past several years have brought a slight increase of single-family residential development and affordable rental units in this area by nonprofit organizations and private developers in addition to rehabilitation of existing homes to provide a safe and sanitary living environment.

Downtown Redevelopment: The City of Lubbock Central Business District (CBD) has developed over the years with traditional office, retail, and governmental agency uses. As with many cities in the last ten to twenty years, retail has moved to shopping areas and other areas outside the CBD, and office development has stagnated. In an effort to reverse the trend, the City of Lubbock, with participation from Lubbock County, Lubbock Hospital District, and High Plains Underground Water District, created a Tax Increment Financing Reinvestment Zone to assist in the redevelopment of downtown in December 2001, with a termination date of December 31, 2020. On September 24, 2009, the City Council approved an extension of the termination date to December 31, 2040 in order to provide additional funding to implement the project and finance plan. According to the latest Project and Finance Plan for the Central Business District Tax Increment Financing Reinvestment Zone (CBD Zone), planned expenditures amount to \$40.8 million for public infrastructure improvements, which will result in an increase in taxable value of approximately \$255.7 million over the CBD Zone's 40-year life. The 2017 appraised value of the CBD Zone is \$206.1 million, a \$100.2 million increase over the 2001 base year value.

A Revitalization Action Plan for downtown Lubbock was completed in FY 2008. The Plan was approved by the Planning and Zoning Commission and the City Council. In 2008, the City Council contracted with McDougal Land Company, LT to provide Consulting/Master Developer services to implement the Plan, and approved a five-year extension to the agreement in FY 2014. The implementation of the Plan is underway with Phases I, II, and IIIa of the relocation of overhead utilities completed. The design of Phase IIIb of the relocation of the overhead utilities will be complete in FY 2018. The City Council approved a master zone case for the downtown area on December 15, 2010, with a revision on September 13, 2012. The zone case assists in implementing design standards for exterior renovations of current buildings as well as for new development in downtown.

FINANCIAL INFORMATION

Long-term financial planning

The City uses ten-year rate models for long-range planning in all major enterprise funds as a basis for budget discussion and policy decision-making. These models are based on current projects and policies and are continually monitored and updated throughout the year. The rates in the models are calculated to provide financially sound net position reserves, as established by City Council Policy.

The City Council has approved goals for the General Fund unrestricted fund balance, which is set at a minimum of an amount equal to 20 percent of operating revenues to meet unanticipated contingencies and fluctuations in revenue. Enterprise funds also have appropriable net position reserve policies, ranging from 10 to 25 percent of operating revenue. LP&L must maintain three months gross retail electric revenue, as determined by taking the average monthly gross retail electric revenue from the previous fiscal year. Water and Wastewater funds maintain appropriable net position in an amount equal to 25 percent of operating revenues. The Solid Waste, Airport, and Storm Water funds maintain appropriable net position of 15 percent of operating revenues. Appropriable net position has a slightly different definition than GAAP unrestricted net position. Excesses and deficits are addressed in the subsequent year budget process.

Utility funds make payments in lieu of property taxes and franchise fees to the General Fund. The amount LP&L pays in lieu of property tax is based on one percent of gross revenues. The payment in lieu of property taxes for other utility funds is calculated by applying the property tax rate to the fixed assets of the fund.

Honorable Mayor, City Council,
And Citizens of the City of Lubbock, Texas
February 7, 2018

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report for the fiscal year ended September 30, 2016. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report in which contents conform to program standards. Such reports must satisfy both GAAP and applicable legal requirements. The City of Lubbock has received this award for thirteen consecutive years.


A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not be possible without the efficient and dedicated services of the entire staff of the Finance Department. We would particularly like to thank the Director of Accounting, Accounting Supervisors, Senior Accountants, Executive Director of Budget, and Senior Financial Analysts for their countless hours of work on this financial report. We express our appreciation to all members of City departments who assisted with and contributed to the preparation of this report. Credit is also given to the City Council and the Audit Committee for their interest and support in planning and conducting the operations of the City in a responsible manner.

Respectfully submitted,


W. Jarrett Atkinson
City Manager


D. Blu Kostelich
Chief Financial Officer


Linda Cuellar, CPA
Director of Accounting



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Lubbock
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2016

Christopher P. Morill

Executive Director/CEO





Independent Auditor's Report

The Honorable Mayor and
Members of the City Council
City of Lubbock, Texas

Report on the Financial Statements

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Lubbock, Texas (City), as of and for the year ended September 30, 2017, and the related notes to the basic financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Civic Lubbock, Inc., Market Lubbock Economic Development Corporation d/b/a Market Lubbock, Inc. or Lubbock Economic Development Alliance, which represent 91 percent, 95 percent and 99 percent, respectively, of the assets, net position and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for such entities, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Civic Lubbock, Inc., a component unit included in the financial statements of the aggregate discretely presented component units, and West Texas Municipal Power Agency, a blended component unit reported as a major fund included in the basic financial statements of the business-type activities, were not audited in accordance with *Government Auditing Standards*.

The Honorable Mayor and
Members of the City Council
City of Lubbock, Texas

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Lubbock, Texas, as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison, pension and other post-employment benefits information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Honorable Mayor and
Members of the City Council
City of Lubbock, Texas

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund statements and schedules, introductory and statistical sections, including the schedule of expenditures of federal awards required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements and schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements and schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2018, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

BKD, LLP

Dallas, Texas
February 7, 2018



City of Lubbock, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2017

The Management's Discussion and Analysis (MD&A) provides a narrative overview and analysis of the financial activities of the City of Lubbock for the fiscal year ended September 30, 2017.

Readers of the financial statements are encouraged to consider the information included in the transmittal letter and in the other sections of the Comprehensive Annual Financial Report (CAFR) e.g., combining statements and the statistical section in conjunction with the MD&A.

Financial Highlights

The following financial highlights summarize the City's financial position and operations as presented in more detail in the Basic Financial Statements (BFS).

- The City's total government-wide assets and deferred outflows exceeded its liabilities and deferred inflows at September 30, 2017 by \$896.6 million (net position).
- The City's total net position increased by \$53.9 million as a result of operations during the fiscal year.
- The ending unassigned fund balance for the General Fund was \$37.5 million, or 27.1 percent of total General Fund revenues, an increase of \$1.9 million from the prior year.
- The City's governmental funds reported combined ending fund balances of \$152.1 million, of which \$36.9 million is available for spending at the City's discretion.
- The City's enterprise funds reported combined ending net position of \$862.8 million, of which \$93.5 million is available for spending at the City's discretion.
- During FY 2017, the City issued \$131.1 million in bonded debt. Part of this was used to refund debt, which decreased debt service requirements by \$6.6 million.

Overview of the Financial Statements

Basic Financial Statements: The MD&A is intended to serve as an introduction to the City's BFS. The BFS are comprised of three components: 1) Government-Wide Financial Statements (GWFS), 2) Fund Financial Statements (FFS), and 3) Notes to Basic Financial Statements (Notes). The CAFR contains other supplementary information in addition to the BFS.

Government-Wide Financial Statements: The GWFS, shown on pages 41-43 of the CAFR, contain the *Statement of Net Position* and the *Statement of Activities*, described below:

The *Statement of Net Position* presents information on the City's assets, liabilities (including capital assets and short- and long-term liabilities), and deferred inflows/outflows of resources with the difference reported as *net position* using the accrual basis of accounting. Over time, increases or decreases in net position serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents a comparison between direct expenses and program revenues for each of the City's functions or programs. Direct expenses are specifically associated with an activity and are therefore clearly identifiable with that activity. Program revenues include charges paid by the recipient of the goods or services offered by the program. Program revenues also include grants and contributions

City of Lubbock, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2017

restricted to meeting the operational or capital requirements of a particular activity. Revenues not directly related to a specific activity are presented as general revenues. The comparison of direct expenses with revenues from activities identifies the extent to which each activity is self-financing, or alternatively, draws from any City generated general revenues.

Governmental activities (activities principally supported by taxes and intergovernmental revenues) of the City include administrative services as well as general government, community services, cultural and recreation, economic and business development, fire, health, police, other public safety, and streets and traffic. Business-type activities (activities intended to recover all of their costs through user fees and charges) of the City include electric, water, wastewater, solid waste, storm water, transit, airport, civic centers, cemetery, and Lake Alan Henry Recreation. Electric includes Lubbock Power and Light (LP&L) and West Texas Municipal Power Agency (WTMPA). All changes in net position are reported as soon as the underlying event occurs (accrual basis), regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods, such as uncollected taxes and earned, but unused vacation leave.

Component Units: The GWFS include the City (the “primary government”), and six legally separate entities (the “component units”) for which the City is financially accountable. The discretely presented component units consist of: Urban Renewal Agency (URA), Market Lubbock Economic Development Corporation, d/b/a Market Lubbock, Inc., Lubbock Economic Development Alliance, Civic Lubbock, Inc., and Vintage Township Public Facilities Corporation. West Texas Municipal Agency (WTMPA) and the Lubbock Metropolitan Planning Organization are blended component units. The component units provide community services, economic development services, arts and cultural activities, and public improvement financing for the City. Financial information for the discretely presented component units is reported separately in the GWFS to differentiate them from the City’s financial information.

Fund Financial Statements: A *fund* is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The principal role of funds in the financial reporting model is to demonstrate fiscal accountability. The City, as with other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the FFS is on major funds. Major funds are those that meet minimum criteria (a percentage of assets, liabilities, revenue, or expenditures/expenses of fund category and of the governmental and enterprise funds combined), or those that the City chooses to report as major funds given their qualitative significance. Non-major funds are aggregated and shown in a single column in the appropriate financial statements. Combining schedules of nonmajor funds are included in the CAFR following the Required Supplementary Information (RSI) and Other Supplementary Information (OSI). All funds of the City can be divided into two categories: *governmental funds* and *proprietary funds*.

Governmental FFS: Governmental funds are used to account for essentially the same functions reported as governmental activities in the GWFS. However, unlike the GWFS, governmental FFS focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the City’s fiscal year. Such information is useful in evaluating the City’s near-term financing requirements.

City of Lubbock, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2017

Because the focus of governmental funds is narrower than that of the GWFS (modified accrual versus accrual basis of accounting, and current financial resources versus economic resources), it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the GWFS. By doing so, the reader may better understand the long-term impact of near-term financing decisions. Reconciliations are provided for both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances to facilitate the comparison between governmental funds and governmental activities.

The City maintains 30 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Governmental Capital Projects Fund, which are considered to be major funds. The governmental FFS can be found on pages 44-47 of the CAFR. Data for the other 28 governmental funds are combined into a single, aggregated presentation.

The City adopts a budget annually for the General Fund and most other funds. In the RSI section, a budgetary comparison statement for the General Fund has been provided to demonstrate compliance with the budget.

Proprietary FFS: The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as business-type activities in the GWFS. Enterprise FFS provide the same type of information as the GWFS, only in more detail. The City uses enterprise funds to account for LP&L, water, wastewater, WTMPA, storm water, transit, solid waste, airport, civic centers, cemetery, and Lake Alan Henry Recreation activities, of which the first five activities are considered to be major funds by the City and are presented separately. The latter six activities are considered non-major funds and are combined into a single aggregated presentation.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for vehicle service operations and fueling, central warehouse and printing services, information technology services, risk management, health benefits, and investment pool funds. The services provided by the internal service funds benefit both governmental and business-type activities, and accordingly, they have been included within governmental activities and business-type activities, as appropriate, in the GWFS. All internal service funds are combined into a single aggregated presentation in the proprietary FFS. Reconciliations are provided for the proprietary fund statement of net position and the proprietary fund statement of revenues, expenses, and changes in fund net position for comparison between enterprise funds and business-type activities. The proprietary FFS can be found on pages 48-59 of the CAFR.

Notes to Basic Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the GWFS and FFS. The notes can be found on pages 60-107 of the CAFR.

Other Information: In addition to the basic financial statements and accompanying notes, this report also presents certain RSI concerning the Schedule of Funding Progress for the City's health/dental care insurance plan. RSI also includes the Schedule of Changes in Net Pension Liability and Related Ratios and the Schedule of Contributions for the City's pension plans. The General Fund budgetary comparison demonstrating the legal level of budgetary control can also be found as part of the RSI. The RSI can be found on pages 109-116 of the CAFR.

City of Lubbock, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2017

Combining Fund Statements and Schedules are included after RSI. This includes Nonmajor Funds and Nonmajor Discretely Presented Component Units. Certain special revenue funds and the debt service fund budgetary comparison schedule are presented in this section, demonstrating compliance at the legal level of budgetary control.

Government-Wide Financial Analysis

As noted earlier, net position serves as a useful indicator of the City's financial position. Assets and deferred outflows exceeded liabilities and deferred inflows by \$896.6 million (*net position*) at the close of the fiscal year, compared to assets and deferred outflows exceeding liabilities and deferred inflows by \$842.7 million (*net position*) at the end of the prior fiscal year. As a result of operations, total net position increased by \$53.9 million during the period.

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 192,931	\$ 202,292	\$ 413,792	\$ 416,385	\$ 606,723	\$ 618,677
Capital assets	422,376	411,239	1,510,554	1,448,674	1,932,930	1,859,913
Total assets	615,307	613,531	1,924,346	1,865,059	2,539,653	2,478,590
Total deferred outflows of resources	63,780	71,230	26,016	31,365	89,796	102,595
Current liabilities	22,779	23,149	60,887	59,478	83,666	82,627
Noncurrent liabilities	626,646	629,798	1,017,846	1,019,606	1,644,492	1,649,404
Total liabilities	649,425	652,947	1,078,733	1,079,084	1,728,158	1,732,031
Total deferred inflows of resources	3,364	4,516	1,297	1,920	4,661	6,436
Net position:						
Net investment in capital assets	126,550	107,639	730,908	676,613	857,458	784,252
Restricted	20,189	17,194	39,890	38,728	60,079	55,922
Unrestricted	(120,441)	(97,536)	99,534	100,079	(20,907)	2,543
Total net position	\$ 26,298	\$ 27,297	\$ 870,332	\$ 815,420	\$ 896,630	\$ 842,717

Approximately 95.5 percent of the City's net position reflects its investment in capital assets, e.g., land, buildings, infrastructure, machinery and equipment, less accumulated depreciation and any related outstanding debt used to acquire those assets. The City uses capital assets to provide services to citizens; consequently, those assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources since the capital assets cannot be used to liquidate the liabilities.

The City has restricted net position totaling \$60.1 million, which represent resources subject to external restrictions on how they may be used. Such resources include bond funds restricted to be spent for specified capital projects, debt service reserves restricted by bond covenants, passenger facility charges restricted for airport improvements, and special revenue funds restricted for specific purposes.

City of Lubbock, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2017

The unrestricted net position is the amount that may be used to meet the government's ongoing obligation to citizens and creditors. The adoption of GASB Statement No. 68 in FY 2015 resulted in the City's reporting of net pension liabilities, deferred inflows of resources, deferred outflows of resources and recognition of pension expense for the City's two pension plans – Texas Municipal Retirement System (TMRS) and Lubbock Fire Pension Fund (LFPP). This had a significant negative effect on the Cities' net position and consequently unrestricted net position as of September 30, 2017.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position for business type activities. However, governmental activities as well as the government as a whole report a deficit of \$120.4 million and \$20.9 million for unrestricted net position, respectively.

City of Lubbock, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2017

City of Lubbock Changes in Net Position
For the Years Ended September 30
(in thousands)

	Governmental Activities		Business- type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program Revenues:						
Charges for services	\$ 10,906	\$ 11,004	\$ 438,165	\$ 411,023	\$ 449,071	\$ 422,027
Operating grants and contributions	7,241	6,362	7,902	8,055	15,143	14,417
Capital grants and contributions	10,832	12,890	15,326	31,915	26,158	44,805
General Revenues:						
Property taxes	86,302	80,613	-	-	86,302	80,613
Sales taxes	70,418	67,978	-	-	70,418	67,978
Other taxes	8,629	8,415	-	-	8,629	8,415
Franchise fees	9,073	9,279	-	-	9,073	9,279
Investment earnings	1,371	1,069	2,841	1,873	4,212	2,942
Other	3,362	3,414	1,917	193	5,279	3,607
Total revenues	208,134	201,024	466,151	453,059	674,285	654,083
Expenses:						
Administrative services/general govt.	14,598	14,945	-	-	14,598	14,945
Community services	6,220	5,254	-	-	6,220	5,254
Cultural and recreation	20,146	19,133	-	-	20,146	19,133
Economic and business development	17,207	16,834	-	-	17,207	16,834
Fire	61,435	56,337	-	-	61,435	56,337
Health	5,905	5,702	-	-	5,905	5,702
Police	69,597	69,246	-	-	69,597	69,246
Other public safety	7,991	9,574	-	-	7,991	9,574
Streets and traffic	28,674	28,460	-	-	28,674	28,460
Interest on long-term debt	12,349	12,567	-	-	12,349	12,567
Electric	-	-	224,783	206,965	224,783	206,965
Water	-	-	59,225	61,873	59,225	61,873
Wastewater	-	-	25,564	25,590	25,564	25,590
Solid Waste	-	-	19,277	18,085	19,277	18,085
Storm Water	-	-	11,901	11,483	11,901	11,483
Transit	-	-	13,293	12,721	13,293	12,721
Airport	-	-	16,720	15,882	16,720	15,882
Civic Centers	-	-	4,344	4,866	4,344	4,866
Cemetery	-	-	760	753	760	753
Lake Alan Henry	-	-	383	360	383	360
Total expenses	244,122	238,052	376,250	358,578	620,372	596,630
Change in net position before transfers	(35,988)	(37,028)	89,901	94,481	53,913	57,453
Transfers	34,989	31,815	(34,989)	(31,815)	-	-
Change in net position	(999)	(5,213)	54,912	62,666	53,913	57,453
Net position - beginning of year	27,297	32,510	815,420	752,754	842,717	785,264
Net position - end of year	\$ 26,298	\$ 27,297	\$ 870,332	\$ 815,420	\$ 896,630	\$ 842,717

Changes in Net Position: Details of the above summarized information can be found on pages 42-43 of the CAFR.

City of Lubbock, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2017

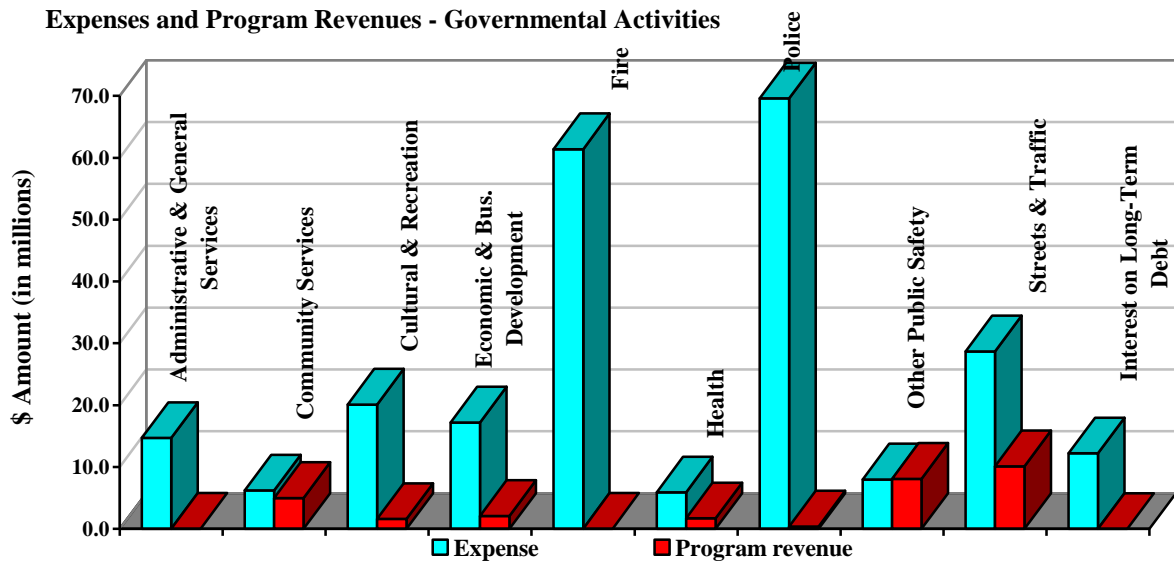
Governmental activities: The City's governmental activities experienced a decrease in net position of \$1.0 million, compared to a decrease of \$5.2 million during the prior fiscal year. Key elements of the operational decrease compared to prior year include:

- Revenues increased \$7.1 million, from \$201.0 million in FY 2016 to \$208.1 million in FY 2017.
 - The City experienced a \$1.3 million decrease in total program revenues from FY 2016 to FY 2017. Charges for services decreased \$0.1 million from FY 2016 to FY 2017 and operating grants and contributions increased \$0.9 million. Capital grants and contributions decreased \$2.1 million from FY 2016 to FY 2017. Mowing fee revenue dropped by \$0.06 million in FY 2017 lowering the charges for services. Police grants and miscellaneous grants went down by \$0.2 million in FY 2017 as Community Development grant revenue increased by \$0.8 million. Developers contributed \$9.7 million in donated streets in FY2017, a \$1.7 million decrease from FY 2016.
 - Property tax revenue increased from \$80.6 million in FY 2016 to \$86.3 million in FY 2017. The property tax rate stayed flat from \$0.53802 per \$100 of assessed value in 2016 to \$0.53802 per 100 of assessed value in 2017. Taxable assessed values increased from \$14.9 billion in 2016 to \$15.9 billion in 2017, as real property valuations continued to climb.
 - Sales tax revenue increased from \$68.0 million in FY 2016 to \$70.4 million in FY 2017. Since FY 2007, Lubbock had experienced a steady increase in sales tax revenue averaging a 4.4 percent increase annually in that time frame. In FY 2017, Lubbock experienced a 3.6 percent increase in sales tax.
 - Franchise fees dropped from \$9.3 million in FY 2016 to \$9.1 million in FY 2017. The decrease occurred in the franchise fees related to telecom line charges. The telecom line charge access line rates is controlled by the Public Utility Commission (PUC). In FY 2017 the access line rates were decreased .0878 percent by the PUC.
- Total expenses increased \$6.0 million, from \$238.1 million to \$244.1 million in FY 2017.
 - Employee compensation increased due to a cost of living increase that was 2 percent and was effective as of January 1, 2017, and due to step increases in Fire and Police civil service positions. The Texas Municipal Retirement System (TMRS) contribution rate decreased slightly from 17.96 percent in FY 2016 to 17.95 percent in FY 2017 and the Lubbock Fire Pension Fund rate decreased from 21.73 percent in FY 2016 to 21.72 percent in FY 2017.
 - Community services expenses increased by \$1.0 million in FY 2017 due to three new construction projects in FY 2017 including a duplex that was completed in August 2017.
 - Fire Department expenses increased \$5.1 million to \$61.4 million in FY 2017. The GASB 68 pension expense of the fire department increased by \$4.7 million in FY 2017. The remaining increase was due to additional salary and benefit cost.
 - Police services increased \$0.4 million to \$69.6 million in FY 2017. The GASB 68 pension expense of the police department decreased by \$1.0 million in FY 2017. Post retirement benefit adjustments and compensated absences decreased \$2.1 million in FY 2017. Police salary and benefit and operating expenditures increased by \$2.8 million in FY 2017.
 - Cultural and Recreation increased by \$1.0 million to \$20.1 million in FY 2017. Cultural and Recreation salary and benefit and maintenance expenditures increased by \$1.5 million in FY 2017.
- Transfers from business-type activities during FY 2017 increased governmental activities' net position by \$35.0 million. During the prior fiscal year, the transfers increased governmental activities' net position by \$31.8 million. Transfers from Lubbock Power and Light to the general fund increased by \$0.7 million in FY 2017. Transfers from wastewater to the general fund increased by \$0.7 million in FY 2017.

City of Lubbock, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2017

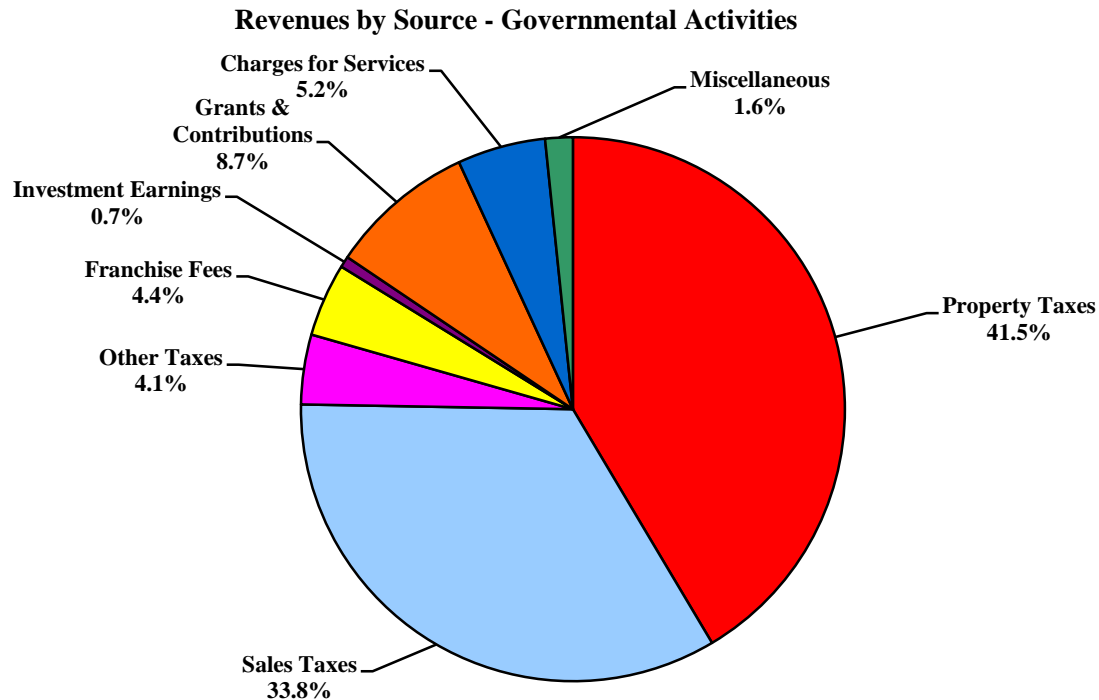
- Net transfers from business-type activities included payments in lieu of taxes, franchise fees, and indirect costs of operations for centralized services such as payroll and purchasing to governmental activities.

The following graph depicts the expenses and program revenues generated through the City's various governmental activities.



**City of Lubbock, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2017**

The following graph reflects the source of revenues and the percentage each source represents of the total.



Business-type activities: Revenues from the City's business-type activities totaled \$466.2 million, compared to \$453.1 million in FY 2016, an increase of \$13.1 million. Key elements of the revenue increase from operations include:

- Charges for services for business-type activities totaled \$438.2 million in FY 2017, an increase of \$27.2 million from the prior year.
 - Electric operations, which include Lubbock Power & Light and West Texas Municipal Power Authority, totaled \$252.1 million in FY 2017, an increase of \$21.8 million. The operating revenue increase was driven by a \$19.8 million increase in general consumers' metered revenue, a \$1.0 million increase in power marketing/unit contingent revenues, and a \$0.3 million increase in other revenues related to high meter reconnect fees and late charges.
 - Water operations totaled \$80.8 million in FY 2017, an increase of \$0.6 million. Average daily water usage was 32.4 million gallons for FY 2017, down from 33.2 million gallons in FY 2016. Revenue slightly increasing when volume is down, indicates a shift in who was using the water. High end users who were paying a higher tier consumption rate increase, which offset the decrease in overall consumption.
 - Wastewater operations totaled \$42.1 million, an increase of \$3.8 million. This was due to volume rates increasing from \$2.67 to \$3.17 in FY 2017.
 - Storm Water Fund operations totaled \$25.5 million, an increase of \$0.6 million. The increase was due to new construction in FY 2017.

City of Lubbock, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2017

- Operating grants, capital grants and contributions produced \$23.2 million in revenue for business-type activities during FY 2017, down \$16.8 million from the prior year. Of that decrease, \$14.0 million is related to Airport capital grants and contributions, which decreased from \$19.8 million in FY 2016 to \$5.8 million in FY 2017. Airport had two large runway projects that were 90% grant funded that were in their final stages in FY 2017, so expenditures and grant reimbursements dropped.

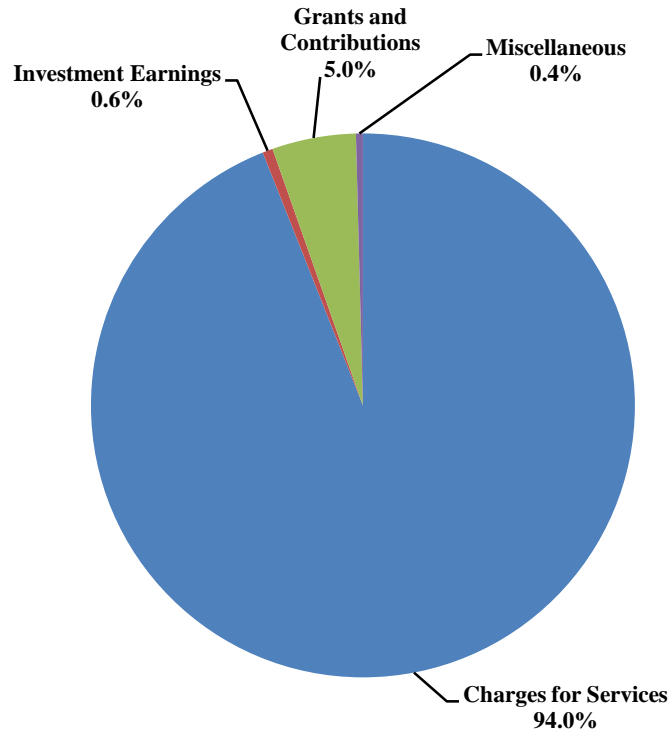
Expenses for business-type activities were \$376.3 million in FY 2017, an increase of \$17.7 million.

- Electric operating expenses were \$224.8 million, an increase of \$17.8 million from the prior year. The primary operating expenses contributing to the increase included a \$16.5 million increase in the purchase of fuel and power. Other services and charges increased by \$1.6 million which was offset by a \$1.5 million decrease in depreciation and amortization. Depreciation and amortization expenses decreased in FY 2017 mainly due to two large assets that were acquired from Xcel in 2011 that fully depreciated in FY 2016. Another factor was some changes in asset lives during the Federal Energy Regulatory Commission (FERC) asset evaluation study in FY 2016, the capital asset lives were compared to industry standards and were changed to reflect those standards. FY 2017 reflected a full year's worth of depreciation based on the new useful lives.
- Expenses in the Water Fund were \$59.2 million in FY 2017, down \$2.7 million from FY 2016. Other services and charges decreased by \$1.8 million in FY 2017. A large increase in other services and charges of \$3.9 million in FY 2016 was caused by repairs on a Canadian River Municipal Water Pipeline that the City of Lubbock cash funded. Personnel cost decreased by \$0.3 million in FY 2017 to \$9.9 million. Employees received a 2 percent compensation adjustment in January 2017. Depreciation expense increased by \$0.2 million in FY 2017 to \$16.9 million.
- Expenses in the Wastewater Fund stayed flat in FY 2017 at \$25.6 million. Interest expense in FY 2017 decreased by \$0.6 million. Personnel cost decreased by \$0.1 million in FY 2017. The decrease was offset by a \$0.6 million increase in depreciation in FY 2017.
- Expenses in the Storm Water Fund were \$11.9 million in FY 2017, an increase of \$0.4 million from the prior year. Personnel cost increased by \$0.2 million in FY 2017 to \$2.3 million. Other services and charges increased by \$0.1 million in FY 2017. This was caused by a \$0.2 million increase in expenses related to the Storm Water master plan.
- Expenses for transit, airport, civic centers, cemetery, and Lake Alan Henry were \$35.5 million, a \$.9 million increase from FY 2016. Transit Fund expenses increased by \$0.6 million in FY 2017 to \$13.3 million. Transit personnel cost increased by \$0.5 million in FY 2017. Airport expenses increased by \$0.9 million in FY 2017 to \$16.7 million. Airport other services and charges increased by \$1.2 million in FY 2017. A study analyzing existing conditions and recommendations for improvements regarding rental car operations at the airport made up \$0.9 million of the increase. Personnel cost and depreciation both dropped by \$0.1 million in FY 2017. Civic centers expenses decreased by \$0.6 million in FY 2017. Civic centers other services and charges dropped by \$0.4 million in FY 2017. Maintenance work being done in the Civic Center renovation project slowed in FY 2017 causing the reduction.

**City of Lubbock, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2017**

The following graph reflects the revenue sources generated by the business-type activities. As noted earlier, the activities include LP&L and WTMPA (Electric), water, wastewater, storm water, solid waste, transit, airport, civic centers, cemetery, and Lake Alan Henry.

Revenues by Source – Business-type Activities



Financial Analysis of the City's Funds

Governmental funds: The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. The General Fund is the chief operating fund of the City.

The GASB has defined five types of fund balances, which, are more fully described in the notes to the financials. The City uses four of the five types of fund balances defined: nonspendable, restricted, committed, and unassigned. At the end of the year, the City's governmental funds reported combined ending fund balances of \$152.1 million, compared to \$159.0 million at the end of the prior fiscal year.

The unassigned fund balance serves as a useful measure of the City's resources available for spending at the end of the fiscal year. In FY 2017 the General Fund had \$37.5 million unassigned fund balance compared to \$35.6 million unassigned fund balance in FY 2016. This is 24.7 percent of the ending governmental fund balance, compared to 22.4 percent of the ending governmental fund balance, at the end of the prior fiscal year. As a measure of the General Fund's liquidity, it is useful to compare both the unassigned fund balance and total fund balance to total fund revenues. Unassigned fund balance represented 27.1 percent of total General Fund revenues compared to 26.2 percent of total General Fund

City of Lubbock, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2017

revenue in the prior year. Total fund balance represented 28.6 percent of total General Fund revenues compared to 26.3 percent of total General Fund revenue in the prior year.

The Governmental Capital Project Fund had a decrease in fund balance of \$14.6 million in FY 2017. Large outlay expenditures in projects that were financed with previous year debt caused the drop in fund balance to \$72.5 million. Long term debt of \$5.8 million was issued in FY 2017 to fund projects going forward.

Proprietary funds: The City's proprietary fund statements provide essentially the same type of information found in the GWFS, but in more detail. Unrestricted net position of the major proprietary funds at the end of September 30, 2017 and 2016 are as follows with amounts presented in thousands:

	<u>2017</u>	<u>2016</u>
LP&L	\$ 48,257	\$ 47,704
Water Fund	28,746	28,082
Wastewater Fund	4,823	6,530
WTMPA	(281)	(1,468)
Storm Water	5,077	4,240
	<u>\$ 86,622</u>	<u>\$ 85,088</u>

The LP&L Fund unrestricted net position increased by \$0.5 million, compared to a increase of \$1.6 million in the prior year. FY 2017 net position before contributions and transfers of \$27.8 million was \$5.2 million higher than in FY 2016. This was due to a \$17.3 million increase in operating expenses and a \$21.0 million increase in operating revenues. The main operating expenses contributing to the \$17.3 million increase included the \$16.5 million increase in the purchase of fuel and power, and a \$0.3 million increase in personnel cost. The \$21.0 million operating revenue increase was driven by the increase in general consumers' metered revenues and the increase in power marketing/unit contingent revenues, and a slight increase in other revenues related to higher meter reconnect fees and late charges.

The Water Fund unrestricted net position increased by \$0.7 million compared to a decrease of \$2.1 million in the prior year. Revenues increased by \$0.6 million in FY 2017 due to a volume increase in higher tier users. Other services and charges expense decreased by \$1.8 million in FY 2017. In FY 16 there was an increase of \$3.5 million in operation and maintenance payments to the Canadian River Municipal Water Authority (CRMWA) by the Water Treatment Plant. The increase was due to repairs of a CRMWA pipeline. Personnel cost decreased by \$0.3 million in FY 2017.

The Wastewater Fund unrestricted net position decreased by \$1.7 million compared to a decrease of \$0.5 million in the prior year. Revenues increased \$3.8 million in FY 2017. Wastewater had a volume rate increase in FY 2017 from \$2.67 to \$3.17 or 15 percent. Wastewater personnel cost decreased by \$0.1 million in FY 2017. Billing office expense decreased by \$0.1 million in FY 2017. Depreciation expense increased by \$0.6 million in FY 2017.

The WTMPA Fund unrestricted net position increased by \$1.2 million compared to an increase of \$1.2 million during the prior fiscal year. Operating revenue increased by \$16.0 million in FY 2017 to \$167.1 million. Operating expenses increased by \$16.0 million in FY 2017 to \$167.4 million. The increase in revenue and expense was related to the increase in fuel and power cost.

City of Lubbock, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2017

The Storm Water Fund unrestricted net position increased by \$0.8 million compared to a \$3.4 million increase in the prior fiscal year. Revenues increased by \$0.6 million in comparison to FY 2016. Revenues increased in FY 2017 because of new construction. Increases in personnel cost and cost attributable to the Storm Water master plan offset the increase in revenues in FY 2017.

General Fund Budgetary Highlights

The Adopted Operating Budget for the General Fund, including transfers, totaled \$169.3 million.

The final adopted budget revenue for FY 2017, including transfers in, totaled \$169.3 million. The only amendment made was to increase Park usage fee revenue by \$39,000. Actual revenue was \$170.3 million. Revenue and transfers-in in the General Fund was less than budget by \$1.0 million. The City's sales tax revenue was \$0.7 million over budget. The transfer from LP&L was \$0.5 million more than budget due to the purchased power rate factor being higher than anticipated, which resulted in higher revenues than projected. Interest earnings were \$0.3 million over budget and franchise fees were over budget by \$0.2 million. These were offset by fines and forfeitures, which were under budget by \$0.5 million. Recoveries of expenditures were also under budget by \$0.2 million.

The original operating expenditure budget for the General Fund, including transfers out, totaled \$170.5 million. Several amendments were passed during the year. The significant ones were \$3.2 million for the refunding of the principal portion of the master lease debt, \$1.4 million to cash fund street maintenance, and \$0.5 million to provide for the costs associated with updating the City's Comprehensive Land Use Plan. After supplements, the final General Fund expenditure budget totaled \$176.3 million.

The City ended the fiscal year with expenditures and transfers out totaling \$172.0 million, \$4.3 million less than budgeted. Expenditures were lower across the board due to compensation and benefits being less than anticipated due to attrition, mostly from retirements and continued difficulty filling positions. Also, fuel prices and electric utility costs were lower than anticipated which affected all areas. Public Works was under budget by \$1.2 million due to lower compensation and benefits as stated above and also lower street maintenance costs. Parks was under budget by \$0.6 million due to lower compensation and benefits as stated above and also due to lower mowing contract expenses. Fire was over by \$0.2 million due to terminal pay and overtime expenditures being greater than anticipated. The Police Department expenditures were under budget by \$1.2 million due to lower fuel costs and the replacement of long term employees with younger, less experienced staff. Administrative Services expenditures were under budget by \$0.9 million due to lower compensation and benefits associated with vacancy savings along with lower than projected electric utility, professional services and training/travel costs.

The City budgets on a basis other than Generally Accepted Accounting Principles (GAAP), with the main difference being that debt proceeds and related capital outlay are not budgeted.

Capital Assets and Debt Administration

Capital assets: The City's investment in capital assets, net of accumulated depreciation, for its governmental and business-type activities at September 30, 2017 totaled \$1.93 billion, a \$73.0 million increase over the prior fiscal year's balance of \$1.86 billion. The investment in capital assets includes land, buildings and improvements, equipment, construction in progress, and infrastructure.

City of Lubbock, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2017

City of Lubbock Capital Assets
(Net of Accumulated Depreciation)
September 30
(in thousands)

	Governmental		Business-		Totals	
	Activities		type			
	2017	2016	2017	2016	2017	2016
Land	\$ 25,332	\$ 24,246	\$ 57,679	\$ 56,124	\$ 83,011	\$ 80,370
Electric non-depreciable	-	-	16,807	16,779	16,807	16,779
Buildings	35,148	32,663	99,598	103,253	134,746	135,916
Improvements other than buildings	286,287	281,796	856,358	816,100	1,142,645	1,097,896
Machinery and equipment	45,302	44,266	75,932	78,471	121,234	122,737
Electric depreciable	-	-	196,458	200,305	196,458	200,305
Construction in progress	30,308	28,268	207,722	177,642	238,030	205,910
Total	\$ 422,377	\$ 411,239	\$ 1,510,554	\$ 1,448,674	\$ 1,932,931	\$ 1,859,913

Major capital asset projects and purchases during the fiscal year included the following:

- New Emergency Operation Center located at Lubbock Fire Complex, totaling \$4.0 million
- Transformers and overhead and underground electric lines for LP&L, totaling \$6.9 million
- Construction of storm water infrastructure from Maxey Park to Canyon Lakes, totaling \$8.7 million
- Construction work on a new Northwest Water Reclamation Plant, totaling \$30.9 million
- Plant improvements to the Southeast Water Reclamation Plant, totaling \$4.3 million
- Citizens Tower that will serve as the new city hall, totaling \$2.8 million

At the end of the fiscal year, the City had construction commitments of \$260.3 million. Replacement of water pump station #10 building, pumps, motors, electric control and piping has \$10.5 million in commitments. Cell 5 development at Landfill 2252 has \$6.2 million in commitments. The cell development will include construction of litter fencing, installation of a concrete pad at the fuel site, and installation of an additional leachate evaporation pond. More than \$13.5 million is committed to complete construction of a new Northwest Water Reclamation Plant. The new plant will handle up to 5 million gallons of wastewater a day. The municipal facilities replacements project has \$54.5 million in commitments. The Citizens Tower and new police station fall under this municipal facilities replacement project.

Additional information about the City's capital assets can be found on pages 77-81 of the CAFR.

City of Lubbock, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2017

Long-term debt: A summary of the City's total outstanding debt follows:

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$ 328,974	\$ 333,500	\$ 718,321	\$ 712,515	\$ 1,047,295	\$ 1,046,015
Revenue and contract bonds	-	-	132,469	128,836	132,469	128,836
Capital Lease Obligation	15,615	25,550	14,321	23,449	29,936	48,999
Total	\$ 344,589	\$ 359,050	\$ 865,111	\$ 864,800	\$ 1,209,700	\$ 1,223,850

There is no direct debt limitation in the City Charter or under state law. The City operates under a Home Rule Charter that limits the maximum tax rate for all city purposes to \$2.50 per \$100 of assessed valuation. The Attorney General of the State of Texas permits an allocation of \$1.50 of the \$2.50 maximum tax rate for general obligation bonds debt service. The FY 2017 interest and sinking fund tax rate per \$100 of assessed valuation was \$0.13662, which is significantly below the maximum allowable tax rate.

As of September 30, 2017, the City's total outstanding debt has decreased by \$14.2 million, or 1.2 percent from the prior fiscal year. The decrease in outstanding debt is attributed to the issuance of \$131 million in debt, offset by the payment of scheduled principal payments totaling \$98.9 million and refunded debt of \$46.3 million.

During the fiscal year, the City issued the following bonds and certificates:

- \$35 million Tax and Waterworks System Surplus Revenue Certificates of Obligation, Series 2017 - These certificates were issued for the purpose of paying contractual obligations to be incurred for various public improvements and renovations including: i) construction, improvements, renovations, relocations and extensions to the City's storm water facilities and infrastructure, including the Northwest Lubbock Drainage Improvements Project (the "Project"); and (ii) payment of professional services of attorneys, financial advisors, engineers and other professionals in connection with the Project and the issuance of the Certificates. The proceeds of the debt are recorded in the Stormwater Capital Projects Fund.
- \$23.2 million Tax and Waterworks System Surplus Revenue Certificates of Obligation, Series 2017A - These certificates were issued for the purpose of paying contractual obligations to be incurred for various public improvements and renovations including: : (i) design, relocation, upgrading and replacement of public utility infrastructure and construction of gateways and green spaces in the Central Business District; (ii) renovations, improvements and extensions to City streets, including sidewalks, street lighting, traffic signals/controllers and traffic signal communication systems, signage, landscaping, utility improvements, extensions, relocations and acquisition of land, rights-of-way and equipment in connection therewith; (iii) improvements, renovations, replacements, relocations and extensions to the City's Wastewater System; (iv) improvements, renovations, replacements, relocations and extensions to the City's Waterworks System (collectively, with items (i)-(iii), the "Project"); and (v) payment of professional services of attorneys, financial advisors, engineers and other professionals in connection with the Project and the issuance of the Certificates. The proceeds of the debt are recorded in the Stormwater Capital Projects Fund.

City of Lubbock, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2017

- \$17.7 million Electric Light and Power System Revenue System Bonds, Series 2017 - These bonds will be used for the purpose of 1) paying contractual obligations to be incurred for the purposes of acquiring, purchasing, constructing, improving, renovating, enlarging, and/or equipping property, buildings, structures, facilities, and/or related infrastructure for the electric system, 2) funding capitalized interest, and 3) paying the costs associated with the issuance of the Bonds.
- \$18.2 million Tax Note, Series 2017 - The proceeds were used to i) contractual obligations incurred or to be incurred for the purchase of the Property, consisting of: materials, supplies, equipment and machinery for the City's Animal Services, Building Inspection, Citibus, Environmental Health, Facilities Management, Fire, Fleet, Information Technology, Library, Municipal Court, Park Maintenance, Police, Public Works Streets, Radio Shop, Solid Waste Management, Storm Water Management, Street Drainage Engineering, Traffic Operations, Vector Control and Wastewater departments; and (ii) paying the costs associated with the issuance of the Bonds.
- \$36.7 million General Obligation Refunding, Series 2016A - The proceeds were used to refund a portion of the City's outstanding indebtedness for the purpose of achieving debt service savings. The bonds refunded \$39.6 million in outstanding debt, which resulted in a decrease of \$6.6 million in total debt service requirements.

In March 2017, Fitch Ratings, Inc. and Standard and Poor's each reaffirmed the City's bond rating of AA+ and characterized the City's rating outlook as stable.

Additional information about the City's long-term debt can be found on pages 93-99 of the CAFR.

Economic Factors and the Next Fiscal Year's Budget and Rates

- In September 2017, the average unemployment rate for the Lubbock area was 2.9 percent, down from the rate of 3.6 percent in September of the previous year. The rate compares favorably to the State's unemployment rate of 4.0 percent and the national rate of 4.1 percent for September 2017.
- Taxable retail sales tax was \$70.4 million in FY 2017 compared to \$68.0 million in FY 2016.
- The total number of new residential permits through September 2017 increased 40.3 percent from 2016 levels, and valuation amounts were \$330.8 million which is 6.9 percent higher than the same time period in 2016.
- Hotel occupancy tax receipts increased to \$7.0 million in FY 2017 compared to \$6.9 million in FY 2016.

The following factors were considered in preparing the City's budget for FY 2018.

- The City has adopted a flat tax rate of 53.802 cents per \$100 valuation for FY 2018. The budget for FY 2017 includes adjustments between the operations and maintenance and debt tax rates. The Operations and Maintenance rate increased by 1.0 cent from 37.825 cents to 38.825 cents per \$100 valuation. The tax rate for debt service decreased by 1.0 cent from 13.662 cents to 12.662 cents. The property tax rate per \$100 valuation is broken down as follows: General Fund 38.825 cents;

City of Lubbock, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2017

Debt Service Fund 12.662 cents; and Economic Development Fund 2.315 cents. Property tax revenues are expected to increase by \$4.1 million for FY 2018 related to increases in valuation.

- Sales tax revenues in FY 2017 are expected to increase 2.3 percent compared to the FY 2017 budget, based on projections by InghamEcon, LLC.
- Payments in lieu of franchise fees are expected to increase 2.01 percent. Budgeting for the payments in lieu of franchise fees and franchise fees changed in FY 2018. Previously the revenue was split 60 percent General Fund and 40 percent to Gateway Streets special revenue fund. In FY 2018, 100 percent of the payment in lieu of franchise fees and franchise fees will be recognized as revenue to the General Fund and 40 percent will be transferred to the Gateway Streets special revenue fund. Franchise fee payments are based on 5.0 percent of metered revenues for LP&L and 5.0 percent of gross revenues for all other municipal utilities. Payments in lieu of property taxes increased 2.9 percent or \$.28 million, due to higher revenues for Lubbock Power and Light.
- Fees for services are expected to increase by \$22.7 million in FY 2018. This is due to Solid Waste revenues now being recorded in the General Fund. The Solid Waste operations were moved to the General Fund and will no longer be treated as an Enterprise fund.
- Compensation costs are expected to increase 6.2 percent and \$5.7 million in FY 2018. Increases in Police and Fire compensation total \$4.3 million or 6.4 percent. Positions in the General Fund increased by 131, with the addition of Solid Waste accounting for 109 of the 131 positions. Twenty additional positions were added to critical areas in the General Fund to address the needs of the City.
- Health insurance is projected to decrease \$1.5 million and 9.3 percent due to plan changes. The cost to the departments decreased from \$873.26 to \$781.27 per employee per month.
- Scheduled charges for information technology will increase by \$1.5 million or 27.4 percent due to increases in the cost of software maintenance contracts, hardware upgrades, and cash funded computer replacement costs. All computer hardware will be cash funded in FY 2018.
- The Vehicle maintenance cost is expected to increase General Fund expenditures by \$0.6 million. This is due to expired warranties on several pieces of heavy equipment at the landfill.
- The Wastewater Fund volume rates will increase 17 percent from \$3.17 to \$3.71 in FY 2018. This was a planned rate increase for FY 2018. The Water rates include a rate structure change for residential customers. The customer's average winter consumption will no longer be used, instead increasing unit rates will be fixed to a defined level of consumption for water users. This rate structure change includes a \$2.00 increase to the base rate for water. Revenues are expected to increase \$9.5 million, or 7.7 percent due to changes to both the water and wastewater rates.
- The U.S. Energy Information Administration (EIA) expects the Henry Hub natural gas spot price to average \$3.10 per MMBtu in calendar year 2018, compared with \$3.01 per MMBtu in calendar year 2017, due to the growing natural gas consumption and natural gas exports.

**City of Lubbock, Texas
Management's Discussion and Analysis
For the Year Ended September 30, 2017**

Requests for Information

The financial report is designed to provide a general overview of the City of Lubbock's finances. Questions concerning any of the information provided in the report or requests for additional financial information should be addressed to the Director of Accounting, City of Lubbock, P.O. Box 2000, Lubbock, Texas, 79457.

City of Lubbock, Texas
Statement of Net Position
September 30, 2017

	Primary Government			
	Governmental	Business-type		Component
	Activities	Activities	Total	Units
ASSETS				
Cash and cash equivalents	\$ 4,836,197	\$ 10,081,982	\$ 14,918,179	\$ 12,579,911
Investments	73,317,687	146,698,523	220,016,210	10,119,250
Receivables (net of allowance for uncollectibles)	14,693,053	55,046,400	69,739,453	2,399,700
Internal balances	6,497,291	(6,497,291)	-	-
Due from other governments	1,780,794	5,075,114	6,855,908	271,763
Due from others	2,555,215	350,402	2,905,617	-
Inventories	133,687	3,415,446	3,549,133	387,295
Prepaid expenses	-	1,645,003	1,645,003	27,181
Restricted assets:				
Cash and cash equivalents	-	-	-	409,397
Investments	88,671,048	197,179,316	285,850,364	-
Leases receivable	445,743	-	445,743	-
Investment in property	-	-	-	187,028
Mortgage receivables	-	-	-	3,556,361
Goodwill	-	796,812	796,812	-
Capital assets (net of accumulated depreciation):				
Non-depreciable	55,639,385	282,208,705	337,848,090	10,763,626
Depreciable	366,737,089	1,228,345,624	1,595,082,713	58,982
Total assets	615,307,189	1,924,346,036	2,539,653,225	40,760,494
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows from pensions	58,006,338	14,622,756	72,629,094	-
Deferred charge on refunding	5,773,406	11,393,611	17,167,017	-
Total deferred outflows of resources	63,779,744	26,016,367	89,796,111	-
LIABILITIES				
Accounts payable	10,791,612	42,397,245	53,188,857	773,944
Accrued liabilities	5,531,196	8,098,248	13,629,444	138,471
Accrued interest payable	1,838,904	5,265,708	7,104,612	76,553
Customer deposits	3,605,082	5,122,560	8,727,642	-
Unearned revenue	1,011,938	3,220	1,015,158	314,295
Noncurrent liabilities due within one year:				
Compensated absences	9,960,343	4,522,928	14,483,271	-
Accrued insurance claims	1,539,429	1,005,258	2,544,687	-
Leases payable	3,214,068	3,336,132	6,550,200	1,015,166
Bonds and notes payable	29,643,354	70,100,680	99,744,034	19,000
Noncurrent liabilities due in more than one year:				
Compensated absences	19,949,238	1,823,501	21,772,739	-
Post-employment benefits	51,050,854	25,208,996	76,259,850	-
Net pension liability	169,322,507	48,726,582	218,049,089	-
Accrued insurance claims	168,740	1,906,600	2,075,340	-
Landfill closure and postclosure care	-	5,676,084	5,676,084	-
Leases payable	12,400,480	10,985,193	23,385,673	2,039,927
Bonds and notes payable	329,396,816	844,554,242	1,173,951,058	2,057,000
Total liabilities	649,424,561	1,078,733,177	1,728,157,738	6,434,356
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows from pensions	3,363,930	1,298,182	4,662,112	-
Total deferred inflows of resources	3,363,930	1,298,182	4,662,112	-
NET POSITION				
Net investment in capital assets	126,549,445	730,907,840	857,457,285	7,670,271
Restricted for:				
Passenger facility charges	-	2,894,890	2,894,890	-
Debt service	7,541,949	36,994,682	44,536,631	-
Special revenue	12,647,801	-	12,647,801	3,743,389
Primary government agreement	-	-	-	100,000
Unrestricted	(120,440,753)	99,533,632	(20,907,121)	22,812,478
Total net position	\$ 26,298,442	\$ 870,331,044	\$ 896,629,486	\$ 34,326,138
See accompanying Notes to Basic Financial Statements				

City of Lubbock, Texas
Statement of Activities
For the Year Ended September 30, 2017

		Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
	Expenses			
Primary government:				
Governmental activities:				
Administrative services and general government	\$ 14,598,216	\$ 23,530	\$ -	\$ -
Community services	6,219,680	-	5,007,936	-
Cultural and recreation	20,145,662	1,358,711	228,431	-
Economic and business development	17,207,379	1,386,138	-	672,879
Fire	61,435,103	31,756	-	-
Health	5,905,200	619,511	1,040,750	-
Police	69,597,467	117,401	90,744	215,543
Other public safety	7,991,003	7,193,605	872,873	28,490
Streets and traffic	28,674,025	175,729	-	9,914,940
Interest on long-term debt	12,348,553	-	-	-
Total governmental activities	<u>244,122,288</u>	<u>10,906,381</u>	<u>7,240,734</u>	<u>10,831,852</u>
Business-type activities:				
Electric	224,783,283	252,069,677	9,988	308,918
Water	59,224,614	80,819,568	1,485,004	3,590,624
Wastewater	25,564,224	42,078,366	77,425	2,100,693
Solid Waste	19,276,982	20,738,031	8,646	-
Storm Water	11,900,754	25,538,337	-	1,493,195
Transit	13,293,179	5,732,262	3,880,818	2,045,300
Airport	16,719,986	9,419,404	2,440,154	5,787,105
Civic Centers	4,344,371	834,156	-	-
Cemetery	760,032	363,327	-	-
Lake Alan Henry	382,614	571,513	-	-
Total business-type activities	<u>376,250,039</u>	<u>438,164,641</u>	<u>7,902,035</u>	<u>15,325,835</u>
Total primary government	<u>\$ 620,372,327</u>	<u>\$ 449,071,022</u>	<u>\$ 15,142,769</u>	<u>\$ 26,157,687</u>
Component units:				
Urban Renewal Agency (URA)	\$ 412,739	\$ -	\$ -	\$ -
Civic Lubbock, Inc.	3,401,213	2,906,775	475,727	-
Market Lubbock, Inc.	4,535,328	109,446	163,274	-
Lubbock Economic Development Alliance	4,081,833	-	-	-
Vintage Township Public Facilities Corporation	153,105	-	-	164,510
Total component units	<u>\$ 12,584,218</u>	<u>\$ 3,016,221</u>	<u>\$ 639,001</u>	<u>\$ 164,510</u>
General revenues:				
Property taxes				
Sales taxes				
Occupancy taxes				
Other taxes				
Franchise taxes				
Investment earnings				
Miscellaneous				
Transfers, net				
Total general revenues and transfers				
Change in net position				
Net position - beginning				
Prior period adjustment				
Net position - ending				

See accompanying Notes to Basic Financial Statements

**Net (Expenses) Revenues and
Changes in Net Position**

Primary Government		Total	Component Units
Governmental Activities	Business-type Activities		
\$ (14,574,686)	\$ -	\$ (14,574,686)	\$ -
(1,211,744)	-	(1,211,744)	-
(18,558,520)	-	(18,558,520)	-
(15,148,362)	-	(15,148,362)	-
(61,403,347)	-	(61,403,347)	-
(4,244,939)	-	(4,244,939)	-
(69,173,779)	-	(69,173,779)	-
103,965	-	103,965	-
(18,583,356)	-	(18,583,356)	-
(12,348,553)	-	(12,348,553)	-
<u>(215,143,321)</u>	<u>-</u>	<u>(215,143,321)</u>	<u>-</u>
-	27,605,300	27,605,300	-
-	26,670,582	26,670,582	-
-	18,692,260	18,692,260	-
-	1,469,695	1,469,695	-
-	15,130,778	15,130,778	-
-	(1,634,799)	(1,634,799)	-
-	926,677	926,677	-
-	(3,510,215)	(3,510,215)	-
-	(396,705)	(396,705)	-
-	188,899	188,899	-
<u>-</u>	<u>85,142,472</u>	<u>85,142,472</u>	<u>-</u>
<u>(215,143,321)</u>	<u>85,142,472</u>	<u>(130,000,849)</u>	<u>-</u>
-	-	-	(412,739)
-	-	-	(18,711)
-	-	-	(4,262,608)
-	-	-	(4,081,833)
-	-	-	11,405
-	-	-	<u>(8,764,486)</u>
86,301,543	-	86,301,543	3,017,457
70,417,997	-	70,417,997	5,868,166
7,025,004	-	7,025,004	3,584,108
1,603,945	-	1,603,945	-
9,073,332	-	9,073,332	-
1,371,387	2,841,137	4,212,524	200,096
3,362,347	1,916,616	5,278,963	238,011
34,989,088	(34,989,088)	-	-
<u>214,144,643</u>	<u>(30,231,335)</u>	<u>183,913,308</u>	<u>12,907,838</u>
(998,678)	54,911,137	53,912,459	4,143,352
27,297,120	815,419,907	842,717,027	29,939,271
-	-	-	243,515
<u>\$ 26,298,442</u>	<u>\$ 870,331,044</u>	<u>\$ 896,629,486</u>	<u>\$ 34,326,138</u>

City of Lubbock, Texas
Balance Sheet
Governmental Funds
September 30, 2017

	General Fund	Governmental Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,963,668	\$ 445,579	\$ 1,588,907	\$ 3,998,154
Investments	29,769,584	6,755,071	24,088,127	60,612,782
Taxes receivable (net)	12,484,257	-	1,471,164	13,955,421
Accounts receivable (net)	572,667	4,060	-	576,727
Interest receivable	26,655	100,140	17,719	144,514
Due from other funds	3,003,867	-	-	3,003,867
Due from other governments	-	-	1,780,794	1,780,794
Due from others	969,436	-	1,557,594	2,527,030
Inventory	119,300	-	-	119,300
Restricted investments	1,966,885	67,671,010	18,104,526	87,742,421
Leases receivable	-	-	445,743	445,743
	<u>-</u>	<u>-</u>	<u>445,743</u>	<u>445,743</u>
Total assets	<u>\$ 50,876,319</u>	<u>\$ 74,975,860</u>	<u>\$ 49,054,574</u>	<u>\$ 174,906,753</u>
LIABILITIES				
Accounts payable	\$ 4,266,293	\$ 2,287,256	\$ 2,627,611	\$ 9,181,160
Accrued liabilities	5,259,430	6,822	100,758	5,367,010
Customer deposits	-	-	3,605,082	3,605,082
Due to other funds	-	-	1,284,992	1,284,992
Unearned revenue	241,946	173,261	596,731	1,011,938
	<u>241,946</u>	<u>173,261</u>	<u>596,731</u>	<u>1,011,938</u>
Total liabilities	<u>9,767,669</u>	<u>2,467,339</u>	<u>8,215,174</u>	<u>20,450,182</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	1,479,119	-	906,548	2,385,667
	<u>1,479,119</u>	<u>-</u>	<u>906,548</u>	<u>2,385,667</u>
Total deferred inflows of resources	<u>1,479,119</u>	<u>-</u>	<u>906,548</u>	<u>2,385,667</u>
FUND BALANCES				
Nonspendable	119,300	-	-	119,300
Restricted	1,966,885	65,689,644	29,059,788	96,716,317
Committed	-	6,818,877	11,494,189	18,313,066
Unassigned	37,543,346	-	(621,125)	36,922,221
	<u>37,543,346</u>	<u>-</u>	<u>(621,125)</u>	<u>36,922,221</u>
Total fund balances	<u>39,629,531</u>	<u>72,508,521</u>	<u>39,932,852</u>	<u>152,070,904</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 50,876,319</u>	<u>\$ 74,975,860</u>	<u>\$ 49,054,574</u>	<u>\$ 174,906,753</u>

See accompanying Notes to Basic Financial Statements

City of Lubbock, Texas
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Position
September 30, 2017

Total fund balance - governmental funds \$ 152,070,904

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 422,376,474

Internal service funds (ISF's) are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The portion of the assets and liabilities of the ISF's primarily serving governmental funds are included in governmental activities in the Statement of Net Position as follows:

Net Position	2,747,395
General obligation bonds	10,965,687
Net book value of capital assets	(9,042,919)
Capital leases payable	1,049,949
Compensated absences	903,602
Post employment benefits	1,743,575
Net pension Liability	3,627,187
Deferred Inflows of Pensions	93,784
Deferred Outflows of Pensions	(1,095,611)
Amounts due from business-type ISF's for amounts undercharged	4,778,416

Certain liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities are as follows:

General obligation bonds	(328,974,099)
Capital leases payable	(15,614,548)
Compensated absences	(29,909,581)
Post employment benefits	(51,050,854)
Net pension liability	(169,322,507)
Accrued interest on general obligation bonds	(1,783,822)

Bond premiums and deferred charges on refunding are recognized as an other financing source in the fund statements. In the government wide statements premiums and deferred charges on refunding are amortized over the life of the bonds. Unamortized balances as of fiscal year end equal premiums \$30,066,071 and deferred charges on refunding \$5,773,406. (24,292,665)

Deferred Inflows of Pensions	(3,363,930)
Deferred Outflows of Pensions	58,006,338

Revenue earned but unavailable in the funds is deferred.	<u>2,385,667</u>
--	------------------

Net Position of governmental activities	<u><u>\$ 26,298,442</u></u>
---	-----------------------------

See accompanying Notes to Basic Financial Statements.

City of Lubbock, Texas
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2017

	General Fund	Governmental Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 122,406,450	\$ -	\$ 42,807,717	\$ 165,214,167
Franchise taxes	5,108,569	-	3,964,763	9,073,332
Special assessments	-	-	1,196,693	1,196,693
Fees and fines	2,749,066	-	221,849	2,970,915
Licenses and permits	3,274,043	-	-	3,274,043
Intergovernmental	579,676	-	7,050,679	7,630,355
Charges for services	3,127,408	-	133,684	3,261,092
Interest	344,933	513,064	263,785	1,121,782
IRS Build America Bond Subsidy	-	-	427,246	427,246
Miscellaneous	869,407	73,903	2,162,215	3,105,525
Total revenues	<u>138,459,552</u>	<u>586,967</u>	<u>58,228,631</u>	<u>197,275,150</u>
EXPENDITURES				
Current:				
Administrative services and general government	13,030,973	-	37,523	13,068,496
Community services	-	-	5,674,147	5,674,147
Cultural and recreation	14,612,768	479,594	61,256	15,153,618
Economic and business development	703,361	183,870	14,236,326	15,123,557
Health	4,016,911	-	1,143,373	5,160,284
Fire	48,018,088	352,460	748	48,371,296
Police	60,992,588	41,675	1,118,098	62,152,361
Other public safety	5,653,793	717,978	1,017,728	7,389,499
Streets and traffic	6,699,009	466,536	-	7,165,545
Intergovernmental	-	-	90,482	90,482
Debt service:				
Principal	8,613,987	-	23,257,138	31,871,125
Interest and other charges	510,760	84,051	14,608,405	15,203,216
Capital outlay	5,159,483	23,644,551	5,141,166	33,945,200
Total expenditures	<u>168,011,721</u>	<u>25,970,715</u>	<u>66,386,390</u>	<u>260,368,826</u>
Revenues under expenditures	<u>(29,552,169)</u>	<u>(25,383,748)</u>	<u>(8,157,759)</u>	<u>(63,093,676)</u>
OTHER FINANCING SOURCES (USES)				
Long-term debt issued	10,066,596	5,780,000	17,490,000	33,336,596
Bond premium	-	619,197	1,941,033	2,560,230
Payment to the refunded bond escrow agent	-	-	(14,745,470)	(14,745,470)
Transfers in	31,805,837	4,856,868	23,739,871	60,402,576
Transfers out	(8,364,259)	(513,064)	(16,463,813)	(25,341,136)
Net other financing sources	<u>33,508,174</u>	<u>10,743,001</u>	<u>11,961,621</u>	<u>56,212,796</u>
Net change in fund balances	<u>3,956,005</u>	<u>(14,640,747)</u>	<u>3,803,862</u>	<u>(6,880,880)</u>
Fund balances - beginning of year	<u>35,673,526</u>	<u>87,149,268</u>	<u>36,128,990</u>	<u>158,951,784</u>
Fund balances - end of year	<u>\$ 39,629,531</u>	<u>\$ 72,508,521</u>	<u>\$ 39,932,852</u>	<u>\$ 152,070,904</u>

See accompanying Notes to Basic Financial Statements

City of Lubbock, Texas
Reconciliation of the Statement of Revenues, Expenditures and Changes
In Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended September 30, 2017

Net change in fund balances - total governmental funds \$ (6,880,880)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays of \$33,945,200 exceeded depreciation of \$32,329,751 in the current period. 1,615,449

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. This is the amount by which proceeds of \$33,336,596 exceeded debt repayments of \$23,257,138, and debt defeasance of \$14,385,000. 4,305,542

Capital lease transactions provide current financial resources to governmental funds and repayment of principal is an expenditure. There were no proceeds and the amount of repayment was \$8,613,987. 8,613,987

Bond premiums are recognized as an other financing source in the governmental funds, but are considered bonds and notes payable on the Statement of Net Position. Premiums are amortized over the life of the bonds. This is the amount by which bond premium issued of \$2,560,232 exceeded deferred refunding charges of \$360,470 and amortization of \$2,878,500. 678,738

Estimated long-term liabilities, excluding internal service funds, are recognized as expenses in the Statement of Activities as incurred, but are recognized when current financial resources are used in the governmental funds.

Compensated absences	(1,048,601)
Post retirement benefits	(3,317,532)
Net pension liability	(13,755,052)
Environmental remediation	118,146

Property taxes levied and court fines and fees earned, but not available, are deferred in the governmental funds, but are recognized when earned (net of estimated uncollectibles) in the Statement of Activities. This amount is the net change in deferred property taxes and court fines and fees for the year. 337,958

Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities. (1,675,605)

Accrued interest is recognized as expenses in the Statement of Activities as incurred, but is recognized when current financial resources are used in the governmental funds. This amount is the net change in the accrued interest this year. 195,619

Capital assets transactions include \$10,014,986 developer donated streets less \$97,356 capital asset transfers in from business-type activities and less \$56,585 disposition of assets and use of property. 9,861,049

Capital lease revenue earned, but not available, is deferred in the governmental funds, but recognized in the Statement of Activities. This is the change in capital lease unavailable revenue for the year. (47,496)

Change in net position of governmental activities \$ (998,678)

See accompanying Notes to Basic Financial Statements.

City of Lubbock, Texas
Statement of Net Position
Proprietary Funds
September 30, 2017

	Enterprise Funds			
	LP&L	Water	Wastewater	WTMPA
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 4,148,731	\$ 2,224,464	\$ 543,314	\$ 432,359
Investments	62,895,552	33,723,301	8,236,747	408,382
Accounts receivable, net	33,937,655	9,055,315	4,564,570	758,456
Interest receivable	40,478	98,102	125,674	-
Due from others	-	9,163	29,265	-
Due from other funds	-	-	-	14,822,879
Due from other governments	-	56,747	-	-
Prepaid expenses	25,000	-	-	-
Inventories	1,870,195	149,357	-	-
Total current assets	<u>102,917,611</u>	<u>45,316,449</u>	<u>13,499,570</u>	<u>16,422,076</u>
Noncurrent assets:				
Restricted investments	46,994,423	54,573,400	41,724,592	-
Goodwill	796,812	-	-	-
Prepaid expenses	1,611,109	-	-	-
	<u>49,402,344</u>	<u>54,573,400</u>	<u>41,724,592</u>	<u>-</u>
Capital assets:				
Land	-	20,619,052	16,991,918	-
Electric non-depreciable	16,807,490	-	-	-
Construction in progress	7,849,483	26,748,678	150,536,666	-
Buildings	-	84,421,022	26,729,779	-
Improvements other than buildings	-	600,248,332	279,705,027	-
Machinery and equipment	-	46,304,993	40,958,706	25,200
Electric depreciable	437,465,131	-	-	-
Less accumulated depreciation	(241,006,745)	(220,151,036)	(127,956,044)	(25,200)
Total capital assets	<u>221,115,359</u>	<u>558,191,041</u>	<u>386,966,052</u>	<u>-</u>
Total noncurrent assets	<u>270,517,703</u>	<u>612,764,441</u>	<u>428,690,644</u>	<u>-</u>
Total assets	<u>\$ 373,435,314</u>	<u>\$ 658,080,890</u>	<u>\$ 442,190,214</u>	<u>\$ 16,422,076</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	1,234,719	4,482,871	1,927,533	-
Deferred outflows from pensions	6,929,607	2,608,615	1,321,208	-
Total deferred outflows of resources	<u>8,164,326</u>	<u>7,091,486</u>	<u>3,248,741</u>	<u>-</u>

See accompanying Notes to Basic Financial Statements

Enterprise Funds

Storm Water	Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
\$ 340,193	\$ 1,417,250	\$ 9,106,311	\$ 1,813,714
5,157,399	21,485,793	131,907,174	27,496,254
2,636,912	3,770,974	54,723,882	-
21,863	25,689	311,806	27,103
-	223,903	262,331	116,256
-	-	14,822,879	-
-	5,018,367	5,075,114	-
-	8,894	33,894	-
-	805,980	2,825,532	604,301
<u>8,156,367</u>	<u>32,756,850</u>	<u>219,068,923</u>	<u>30,057,628</u>
37,421,207	15,726,689	196,440,311	1,667,632
-	-	796,812	-
-	-	1,611,109	-
<u>37,421,207</u>	<u>15,726,689</u>	<u>198,848,232</u>	<u>1,667,632</u>
13,280,364	6,787,803	57,679,137	-
-	-	16,807,490	-
20,694,491	1,892,760	207,722,078	-
64,580	68,630,124	179,845,505	1,691,882
155,876,923	240,389,758	1,276,220,040	2,775,878
6,667,159	93,357,556	187,313,614	20,281,835
-	-	437,465,131	-
<u>(35,655,044)</u>	<u>(229,758,238)</u>	<u>(854,552,307)</u>	<u>(13,653,035)</u>
<u>160,928,473</u>	<u>181,299,763</u>	<u>1,508,500,688</u>	<u>11,096,560</u>
<u>198,349,680</u>	<u>197,026,452</u>	<u>1,707,348,920</u>	<u>12,764,192</u>
<u>\$ 206,506,047</u>	<u>\$ 229,783,302</u>	<u>\$ 1,926,417,843</u>	<u>\$ 42,821,820</u>
3,375,476	373,012	11,393,611	-
<u>477,354</u>	<u>2,754,419</u>	<u>14,091,203</u>	<u>1,627,162</u>
<u>3,852,830</u>	<u>3,127,431</u>	<u>25,484,814</u>	<u>1,627,162</u>

City of Lubbock, Texas
Statement of Net Position
Proprietary Funds
September 30, 2017

	Enterprise Funds			
	LP&L	Water	Wastewater	WTMPA
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 1,531,608	\$ 8,523,045	\$ 8,575,648	\$ 15,453,177
Accrued liabilities	6,162,295	363,936	173,936	-
Accrued interest payable	1,514,556	1,600,211	1,424,971	-
Due to other funds	14,822,879	-	-	-
Customer deposits	4,663,363	278,838	-	-
Unearned revenue - other	-	-	-	-
Compensated absences	1,954,638	773,779	403,977	-
Accrued insurance claims	-	-	-	-
Notes payable	-	-	-	1,250,000
Leases payable	-	202,671	398,759	-
Bonds payable	15,912,078	27,952,727	12,842,055	-
Total current liabilities	<u>46,561,417</u>	<u>39,695,207</u>	<u>23,819,346</u>	<u>16,703,177</u>
Noncurrent liabilities:				
Accrued insurance claims	-	-	-	-
Landfill closure and post closure care	-	-	-	-
Compensated absences	879,422	348,136	181,755	-
Post employment benefits	9,373,761	5,231,221	2,362,904	-
Net pension liability	23,015,914	8,795,011	4,412,744	-
Leases payable	-	928,567	2,058,983	-
Bonds payable	112,570,647	309,409,754	250,881,870	-
Total noncurrent liabilities	<u>145,839,744</u>	<u>324,712,689</u>	<u>259,898,256</u>	<u>-</u>
Total liabilities	<u>192,401,161</u>	<u>364,407,896</u>	<u>283,717,602</u>	<u>16,703,177</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows from pensions	<u>605,547</u>	<u>242,574</u>	<u>119,274</u>	<u>-</u>
Total deferred inflows of resources	<u>605,547</u>	<u>242,574</u>	<u>119,274</u>	<u>-</u>
NET POSITION (DEFICIT)				
Net investment in capital assets	129,981,725	258,602,280	148,708,672	-
Restricted for:				
Passenger facility charges	-	-	-	-
Debt service	10,354,109	13,173,263	8,070,400	-
Unrestricted	<u>48,257,098</u>	<u>28,746,363</u>	<u>4,823,007</u>	<u>(281,101)</u>
Total net position (deficit)	<u>\$ 188,592,932</u>	<u>\$ 300,521,906</u>	<u>\$ 161,602,079</u>	<u>\$ (281,101)</u>

See accompanying Notes to Basic Financial Statements

Enterprise Funds			
Storm Water	Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
\$ 4,652,100	\$ 2,659,619	\$ 41,395,197	\$ 2,612,494
102,639	1,188,751	7,991,557	270,877
484,992	238,168	5,262,898	57,892
-	1,718,875	16,541,754	-
-	180,359	5,122,560	-
-	3,220	3,220	-
125,159	1,208,563	4,466,116	357,728
-	-	-	2,544,687
-	-	1,250,000	-
300,765	2,420,143	3,322,338	487,854
7,490,950	4,624,812	68,822,622	1,302,912
<u>13,156,605</u>	<u>14,242,510</u>	<u>154,178,262</u>	<u>7,634,444</u>
-	-	-	2,075,340
-	5,676,084	5,676,084	-
56,310	332,315	1,797,938	628,250
1,068,139	6,205,434	24,241,459	2,711,112
1,560,745	9,169,583	46,953,997	5,399,772
1,250,432	6,673,161	10,911,143	649,940
<u>131,446,065</u>	<u>39,781,947</u>	<u>844,090,283</u>	<u>10,154,795</u>
<u>135,381,691</u>	<u>67,838,524</u>	<u>933,670,904</u>	<u>21,619,209</u>
<u>148,538,296</u>	<u>82,081,034</u>	<u>1,087,849,166</u>	<u>29,253,653</u>
38,357	244,530	1,250,282	141,683
<u>38,357</u>	<u>244,530</u>	<u>1,250,282</u>	<u>141,683</u>
53,218,946	138,921,848	729,433,471	4,140,127
-	2,894,890	2,894,890	-
3,486,486	1,897,275	36,981,533	632,670
<u>5,076,792</u>	<u>6,871,156</u>	<u>93,493,315</u>	<u>10,280,849</u>
<u>\$ 61,782,224</u>	<u>\$ 150,585,169</u>	<u>\$ 862,803,209</u>	<u>\$ 15,053,646</u>



City of Lubbock, Texas
Reconciliation of the Statement of Net Position - Proprietary Funds
To the Statement of Net
Position September 30, 2017

Total net position - proprietary funds	\$ 862,803,209
--	----------------

Amounts reported for business-type activities in the Statement of Net Position are different because:

Internal service funds (ISF's) are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The portion of assets and liabilities of the ISF's primarily serving enterprise funds are included in business-type activities in the Statement of Net Position as follows:

Net position of business-type ISF's	12,306,251
Amounts due to governmental ISF's for amounts overcharged	<u>(4,778,416)</u>
Net position of business-type activities	<u><u>\$ 870,331,044</u></u>

City of Lubbock, Texas
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For The Year Ended September 30, 2017

	Enterprise Funds			
	LP&L	Water	Wastewater	WTMPA
OPERATING REVENUES				
Charges for services (net)	\$ 243,928,151	\$ 80,819,568	\$ 42,078,366	\$ 167,142,300
Total operating revenues	243,928,151	80,819,568	42,078,366	167,142,300
OPERATING EXPENSES				
Personal services	20,179,531	9,938,690	4,825,639	-
Insurance and claims	-	-	-	-
Supplies	1,104,042	1,989,943	704,297	-
Materials	-	-	-	-
Maintenance	2,434,483	3,020,288	1,250,886	-
Purchase of fuel and power	162,336,405	-	-	166,899,566
Billing office expense	-	2,481,742	1,385,767	-
Other services and charges	9,145,851	13,409,880	4,389,883	504,273
Depreciation and amortization	17,293,626	16,877,783	9,568,844	-
Total operating expenses	212,493,938	47,718,326	22,125,316	167,403,839
Operating income (loss)	31,434,213	33,101,242	19,953,050	(261,539)
NONOPERATING REVENUES (EXPENSES)				
Interest earnings	625,337	1,218,654	399,603	2,860
Passenger facility charges/Federal grants	-	-	29,460	-
Disposition of assets	(479,717)	(84,292)	(310,348)	-
Miscellaneous	(1,053,043)	283,868	470,639	44,309
IRS Build America Bond Subsidy	9,988	1,485,004	47,965	-
Interest expense	(2,713,899)	(11,114,917)	(2,996,349)	-
Net nonoperating revenues (expenses)	(3,611,334)	(8,211,683)	(2,359,030)	47,169
Income (loss) before contributions and transfers	27,822,879	24,889,559	17,594,020	(214,370)
Capital contributions/grants	28,879	3,590,624	2,454,078	-
Transfers in	93,243	164,180	61,252	1,400,873
Transfers out	(15,979,604)	(9,809,113)	(5,014,866)	-
Change in net position (deficit)	11,965,397	18,835,250	15,094,484	1,186,503
Total net position - beginning of year	176,627,535	281,686,656	146,507,595	(1,467,604)
Total net position (deficit) - end of year	\$ 188,592,932	\$ 300,521,906	\$ 161,602,079	\$ (281,101)

See accompanying Notes to Basic Financial Statements.

Enterprise Funds			
Storm Water	Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
\$ 25,538,337	\$ 37,658,693	\$ 597,165,415	\$ 59,499,049
25,538,337	37,658,693	597,165,415	59,499,049
2,285,963	20,563,280	57,793,103	6,821,022
-	-	-	35,157,240
153,404	3,308,177	7,259,863	84,925
-	-	-	10,344,826
297,884	5,733,261	12,736,802	3,997,965
-	-	329,235,971	-
837,779	837,779	5,543,067	-
1,313,683	8,276,852	37,040,422	3,905,160
3,797,252	14,445,864	61,983,369	2,754,312
8,685,965	53,165,213	511,592,597	63,065,450
16,852,372	(15,506,520)	85,572,818	(3,566,401)
210,990	283,436	2,740,880	349,862
-	6,320,972	6,350,432	-
(30,004)	40,143	(864,218)	665,240
36,174	1,481,599	1,263,546	366,946
-	8,646	1,551,603	-
(3,146,768)	(1,347,322)	(21,319,255)	(237,672)
(2,929,608)	6,787,474	(10,277,012)	1,144,376
13,922,764	(8,719,046)	75,295,806	(2,422,025)
1,493,195	7,829,716	15,396,492	26,699
-	6,407,091	8,126,639	303,020
(7,937,203)	(4,447,293)	(43,188,079)	(303,020)
7,478,756	1,070,468	55,630,858	(2,395,326)
54,303,468	149,514,701	807,172,351	17,448,972
\$ 61,782,224	\$ 150,585,169	\$ 862,803,209	\$ 15,053,646



City of Lubbock, Texas
Reconciliation of the Statement of Revenues, Expenses and Changes in
Fund Net Position - Proprietary Funds
To the Statement of Activities
For the Year Ended September 30, 2017

Net change in fund net position - total enterprise funds	\$ 55,630,858
--	---------------

Amounts reported for business-type activities in the statement of activities are different because:

Internal service funds (ISF's) are used by management to charge the costs of certain activities such as fleet services, central warehousing activities, management information activities, etc. to individual funds. The net revenue (expense) of certain ISF's is reported with business-type activities.	(719,721)
--	-----------

Change in net position of business-type activities	\$ 54,911,137
--	---------------

See accompanying Notes to Basic Financial Statements.

City Of Lubbock, Texas
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2017

	Enterprise Funds			
	LP&L	Water	Wastewater	WTMPA
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 241,349,331	\$ 80,987,531	\$ 41,623,158	\$ 166,719,231
Receipts from interfund services	-	-	-	-
Payments to suppliers	(173,929,693)	(13,314,433)	(10,715,329)	(168,349,514)
Payments to employees	(18,144,810)	(10,302,626)	(4,999,575)	-
Other receipts (payments)	(1,043,055)	1,768,872	518,604	44,309
Net cash provided (used) by operating activities	<u>48,231,773</u>	<u>59,139,344</u>	<u>26,426,858</u>	<u>(1,585,974)</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES				
Transfers in from other funds	93,243	164,180	61,252	1,400,873
Transfers out to other funds	(15,979,604)	(9,809,113)	(5,014,866)	-
Short-term interfund borrowings	-	-	-	-
Operating grants	-	-	29,460	-
Net cash provided (used) by noncapital and related financing activities	<u>(15,886,361)</u>	<u>(9,644,933)</u>	<u>(4,924,154)</u>	<u>1,400,873</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases of capital assets	(16,375,757)	(24,898,552)	(53,252,564)	-
Sale of capital assets	129,336	54,621	-	-
Principal paid on capital leases	-	(1,058,427)	(1,047,047)	-
Principal paid on bonds	(15,302,476)	(26,387,997)	(12,528,145)	-
Issuance of bonds	19,867,695	12,706,045	3,485,434	-
Bond issuance costs	9,606	-	-	-
Interest paid on bonds and capital leases	(5,035,720)	(13,643,210)	(5,957,718)	-
Capital grants and contributions	28,879	891,548	417,084	-
Net cash provided (used) by capital and related financing activities	<u>(16,678,437)</u>	<u>(52,335,972)</u>	<u>(68,882,956)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	-	6,175,932	50,203,551	-
Purchase of investments	(20,976,231)	(7,023,804)	(3,974,312)	-
Interest earnings on cash and investments	612,999	1,186,077	358,819	-
Net cash provided (used) by investing activities	<u>(20,363,232)</u>	<u>338,205</u>	<u>46,588,058</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	<u>(4,696,257)</u>	<u>(2,503,356)</u>	<u>(792,194)</u>	<u>(185,101)</u>
Cash and cash equivalents - beginning of year	8,844,988	4,727,820	1,335,508	617,460
Cash and cash equivalents - end of year	<u>\$ 4,148,731</u>	<u>\$ 2,224,464</u>	<u>\$ 543,314</u>	<u>\$ 432,359</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 31,434,213	\$ 33,101,242	\$ 19,953,050	\$ (261,539)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	17,293,626	16,877,783	9,568,844	-
Other income (expense)	(1,043,055)	1,768,872	518,604	44,309
Change in current assets and liabilities:				
Accounts receivable	(2,578,819)	167,963	(455,208)	(9,288)
Inventory	(295,416)	88,101	-	-
Prepaid expenses	-	-	-	-
Due from other governments	-	(24,297)	-	-
Accounts payable	(445,150)	6,223,479	(3,741,434)	(945,675)
Due to/from other funds	413,781	-	141,912	(413,781)
Other accrued expenses	1,791,692	6,469	(12,868)	-
Customer deposits	(433,486)	13,905	-	-
Change in compensated absences and retirement benefits	2,094,387	915,827	453,958	-
Net cash provided (used) by operating activities	<u>\$ 48,231,773</u>	<u>\$ 59,139,344</u>	<u>\$ 26,426,858</u>	<u>\$ (1,585,974)</u>
Supplemental cash flow information:				
Noncash capital contributions and other charges	\$ -	\$ 2,699,076	\$ 2,036,994	\$ -

See accompanying Notes to Basic Financial Statements.

Enterprise Funds			
Storm Water	Nonmajor Enterprise Funds	Totals	Internal Service Funds
\$ 25,514,850	\$ 37,910,867	\$ 594,104,968	\$ 56,968,130
-	-	-	2,530,919
(2,486,120)	(19,707,999)	(388,503,088)	(50,633,458)
(2,191,244)	(20,994,956)	(56,633,211)	(6,644,675)
36,174	1,490,245	2,815,149	367,085
<u>20,873,660</u>	<u>(1,301,843)</u>	<u>151,783,818</u>	<u>2,588,001</u>
-	6,407,091	8,126,639	303,020
(7,937,203)	(4,447,293)	(43,188,079)	(303,020)
-	388,269	388,269	-
-	6,320,973	6,350,433	-
<u>(7,937,203)</u>	<u>8,669,040</u>	<u>(28,322,738)</u>	<u>-</u>
(6,441,807)	(12,841,557)	(113,810,237)	(2,507,193)
7,927	81,121	273,005	691,689
(928,604)	(6,080,372)	(9,114,450)	(1,334,913)
(5,155,706)	(2,900,668)	(62,274,992)	(964,366)
36,139,853	5,272,910	77,471,937	783,607
(92,666)	-	(83,060)	-
(3,693,398)	(1,897,170)	(30,227,216)	(544,753)
-	7,832,405	9,169,916	26,699
<u>19,835,599</u>	<u>(10,533,331)</u>	<u>(128,595,097)</u>	<u>(3,849,230)</u>
-	3,876,972	60,256,455	1,763,853
(33,259,426)	(2,986,489)	(68,220,262)	(3,071,752)
202,375	275,541	2,635,811	341,173
<u>(33,057,051)</u>	<u>1,166,024</u>	<u>(5,327,996)</u>	<u>(966,726)</u>
(284,995)	(2,000,110)	(10,462,013)	(2,227,955)
625,188	3,417,360	19,568,324	4,041,669
<u>\$ 340,193</u>	<u>\$ 1,417,250</u>	<u>\$ 9,106,311</u>	<u>\$ 1,813,714</u>
\$ 16,852,372	\$ (15,506,520)	\$ 85,572,818	\$ (3,566,401)
3,797,252	14,445,864	61,983,369	2,754,312
36,174	1,490,245	2,815,149	367,085
(23,487)	252,174	(2,646,665)	-
-	(61,560)	(268,875)	(32,407)
-	(8,894)	(8,894)	-
-	4,175,014	4,150,717	-
(20,079)	(6,819,783)	(5,748,642)	894,955
-	(124,136)	17,776	(100,339)
34,070	(19,841)	1,799,522	1,683,519
-	(13,464)	(433,045)	-
197,358	889,058	4,550,588	587,277
<u>\$ 20,873,660</u>	<u>\$ (1,301,843)</u>	<u>\$ 151,783,818</u>	<u>\$ 2,588,001</u>
\$ 1,446,544	\$ 2,689	\$ 6,185,303	\$ -

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Basic Financial Statements (BFS) of the City of Lubbock, Texas (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units, including specialized industry practices as specified in the American Institute of Certified Public Accountants audit and accounting guide titled *State and Local Governments*. The Governmental Accounting Standards Board (GASB) is the acknowledged standard-setting body for establishing governmental accounting and financial reporting principles. With respect to proprietary activities related to business-type activities and enterprise funds, including component units, the City applies all applicable GASB pronouncements.

The more significant accounting policies are described below.

A. REPORTING ENTITY

The City is a municipal corporation governed by a Council-Manager form of government. The City, incorporated in 1909, is located in the northwestern part of the state. The City currently occupies a land area of 129.0 square miles and serves a population approximating 254,565. The City is empowered to levy a property tax on both real and personal properties located within its boundaries. It is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the City Council.

The City provides a full range of services including public safety (police and fire protection), electric, water and wastewater, storm water, solid waste, public transportation, health and social services, cultural-recreation, highways and streets, airport, planning and zoning, and general administrative services.

The BFS present the City and its component units and include all activities, organizations, and functions for which the City is considered to be financially accountable. The criteria considered in determining activities to be reported within the City's BFS are based upon and consistent with those set forth in the Codification of Governmental Accounting Standards, Section 2100, "*Defining the Financial Reporting Entity*." The criteria include the following:

- The organization is legally separate (can sue and be sued in its own name);
- The City holds the corporate powers of the organization;
- The City appoints a voting majority of the organization's board;
- The City is able to impose its will on the organization;
- The organization has the potential to impose a financial benefit or burden on the City; or
- There is fiscal dependency by the organization on the City.

As required by GAAP, the BFS present the reporting entity which consists of the City (the primary government), organizations for which the City is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion could cause the City's BFS to be misleading or incomplete.

BLENDED COMPONENT UNIT

West Texas Municipal Power Agency (WTMPA) is a legally separate municipal corporation, a political subdivision of Texas, and body politic and corporate, formed in 1983, governed by an eight-member Board of Directors. The board consists of two directors from each participating city. One member is elected as the president who presides over monthly meetings. Directors serve without compensation. WTMPA has no employees and instead contracts for services to meet its general operating needs. WTMPA may engage in the business of generation, transmission, sale, and exchange of electric energy to the four participating public entities: Lubbock, Tulia, Brownfield, and Floydada. WTMPA may also participate in power pooling and

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

power exchange agreements with other entities. WTMPA provides electricity to its four member cities with the City having a 95.4 percent interest in its operations. Each member city appoints two members to the WTMPA board; however an affirmative vote of the “majority in interest” is required to approve the operating budget, capital projects, debt issuance, and any amendments to WTMPA rules and regulations. The “majority in interest” relates to the following items: 1) WTMPA’s operating budget or any budget amendment(s); 2) capital projects; 3) certain energy sales or sale or exchange of property with a value in excess of \$20,000; and 4) any amendments to WTMPA rules and regulations requiring a quorum of seven voting board members, an affirmative vote of six voting board members, and an affirmative vote of the “majority in interest”. The “majority in interest” weighted vote is assigned according to kilowatt purchases by each city during the previous year. Lubbock has a 95.4 percent “majority in interest” vote since it accounts for 95.4 percent of WTMPA’s electrical sales. WTMPA provides services almost exclusively to the City and is therefore presented as a blended enterprise fund. Separate audited financial statements may be obtained through the City.

Lubbock Metropolitan Planning Organization (the “MPO”). The Federal Aid Highway Act of 1962 mandated that as a condition for the receipt of federal funds, each urban area with a population over 50,000 in the United States was required to carry on a continuing, cooperative, and comprehensive transportation planning process. The law also designates additional responsibilities once you reach a 200,000 population threshold.

The MPO is governed by a nine-member Board of Directors. The Board consists of four City of Lubbock administrators, the City Manager, the Mayor of Lubbock, two Lubbock Council members, two Lubbock County administrators, the Mayor of Wolfforth, a Texas Department of Transportation district engineer and the General Manager from Citibus.

The City of Lubbock acts as the fiscal agent for the MPO, per an operating agreement between the City, the MPO and the Texas Department of Transportation. The agreement is to develop transportation plans and programs for urbanized areas of the State of Texas and to expend federal funds and to provide state matching funds for allowable costs necessary for the improvement of roads not in the state highway system.

DISCRETELY PRESENTED COMPONENT UNITS

The financial data for the Component Units are shown in the Government-Wide Financial Statements. The Component Units are reported in a separate column to emphasize that they are legally separate from the City. The following Component Units are included in the reporting entity because the primary government is financially accountable, is able to impose its will on the organization, or can significantly influence operations and/or activities of the organization.

The **Urban Renewal Agency (URA)** is a legally separate entity that serves as an arm of the City. The URA is governed by state law and was formed to help eliminate slum and blight within the City. The URA board oversees loans made to businesses and citizens of Lubbock using funds accumulated by the City of Lubbock community development program. The URA also oversees the acquisition and disposition of real property. The URA manages the City of Lubbock Community Development loans and property program. The URA Board is composed of nine members appointed by the City Council. There are no separate financial statements available for the URA.

Civic Lubbock, Inc. is a legally separate entity that was organized to foster and promote the presentation of wholesome educational, cultural, and entertainment programs for the general moral, intellectual and physical improvement, and welfare of the citizens of Lubbock and the surrounding area. The eleven-member board is appointed by the City Council. The City Council reviews and accepts the annual budget. Separate audited financial statements for Civic Lubbock may be obtained from Civic Lubbock, Inc. at 1501 6th Street, Lubbock, Texas.

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

Market Lubbock Economic Development Corporation, dba Market Lubbock, Inc. is a legally separate entity that was formed on October 10, 1995 by the City Council to create, manage, operate, and supervise programs and activities to promote, assist, and enhance economic development within and around the City. The City Council appoints the seven-member board, and its operations are funded primarily through budgeted allocations of the City's property and hotel occupancy taxes. Separate audited financial statements may be obtained from Market Lubbock, Inc. at 1500 Broadway, Sixth Floor, Lubbock, Texas.

Lubbock Economic Development Alliance, Inc. is a legally separate entity that was formed on June 1, 2004 by the City of Lubbock to create, manage, and supervise programs and activities to promote, assist, and enhance economic development within and around the City. The City Council appoints the seven-member board, and its operations are funded primarily through budgeted allocations of the City's sales and use taxes. Separate audited financial statements may be obtained from Lubbock Economic Development Alliance, Inc. at 1500 Broadway, Sixth Floor, Lubbock, Texas.

The Vintage Township Public Facilities Corporation is a legally separate entity that was formed in 2007 with the sole purpose to assist the City in financing, refinancing, providing, or otherwise assisting in the acquisition, construction, and maintenance of certain public facilities benefiting the Vintage Township Public Improvement District. The three-member board is appointed by the City Council. The City Council reviews and accepts the annual budget. Separate audited financial statements are not available.

RELATED ORGANIZATIONS

The City Council is responsible for appointing the board members of some other organizations, but the City's accountability for these organizations do not extend beyond the board appointments. The City Council is not able to impose its will on these entities and there is no financial benefit or burden relationship. Bonds issued by these organizations do not constitute indebtedness of the City. The following related organizations are not included in the reporting entity:

The **Lubbock Fire Pension Fund (LFPF)** operates under provisions of the Texas Local Fire Fighters' Retirement Act for purposes of providing retirement benefits for the City's firefighters. The Mayor's designee, the Chief Financial Officer or his designee, three firefighters elected by active firefighters and two at-large members elected by the LFPF Board, govern its affairs. The Pension Fund is funded by contributions from the firefighters and city matching contributions. As provided by enabling legislation, the City's responsibility to the LFPF is limited to matching bi-weekly contributions made by the members. Title to assets is vested in the LFPF and not the City. The Texas State Pension Review Board is mandated to oversee all Texas public retirement systems in regard to their actuarial soundness and compliance with state law. The City cannot significantly influence the Pension Fund's operations. Separate audited financial statements may be obtained from the LFPF or from the City.

The **Housing Authority of the City of Lubbock** is a legally separate entity. The Mayor appoints the five-member board.

The **Lubbock Health Facilities Development Corporation** promotes health facilities development. The City Council appoints the seven-member board.

The **Lubbock Education Facilities Authority, Inc.** is a non-profit corporation and instrumentality of the City and was created pursuant to the Higher Education Authority Act, Chapter 53 Texas Education Code, for the purpose of aiding institutions of higher education, secondary schools, and primary schools in providing educational facilities and housing facilities. The seven-member board is appointed by the City Council.

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Government-Wide Financial Statements (GWFS) (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the City and its blended component unit as a whole. The discretely presented component units are also aggregately presented within these statements. The effect of interfund activity has been removed from these statements by allocation of the activities of the various internal service funds to the governmental and business-type activities on a fund basis based on the predominant users of the services. Interfund services are not eliminated in the process of consolidation. Governmental activities, which are primarily supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All activities, both governmental and business-type, are reported in the GWFS using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The GWFS focus more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The Government-Wide Statement of Net Position reports all financial and capital resources of the City. It is displayed in the format of assets plus deferred outflows of resources equal liabilities plus deferred inflows of resources, plus net position, with the assets and liabilities shown in order of their relative liquidity. Net position represents the difference between all other elements in a statement of financial position and should be displayed in three components: 1) net investment in capital assets; 2) restricted; and 3) unrestricted. Net investment in capital assets equals capital assets net of accumulated depreciation and is reduced by outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount should not be included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources should be included in the same net position component (restricted or unrestricted) as the unspent amount. Restricted net position are those with constraints placed on their use as: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or 2) imposed by law through constitutional provisions or enabling legislation. All net position not otherwise classified as net investment in capital assets or restricted, is shown as unrestricted. Reservations or designations of net position imposed by the City, whether by administrative policy or legislative actions of the City Council that do not otherwise meet the definition of restricted net position, are considered unrestricted in the GWFS.

The Government-Wide Statement of Activities demonstrates the degree to which the direct expenses for a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The general revenues support the net costs of the functions and segments not covered by program revenues.

Fund Financial Statements (FFS) for governmental and proprietary funds are also part of the BFS. The focus of the FFS is on major funds, as defined by GASB Statement No. 34. GASB Statement No. 34 sets forth minimum criteria for the determination of major funds, i.e., a percentage of assets, liabilities, revenue, or expenditures/expenses of fund category and of the governmental and enterprise funds combined. However, it also gives governments the option of displaying other funds as major funds. The City can elect to add some funds as major funds because of outstanding debt or community focus. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the FFS. Other non-major funds are combined in a single column in the appropriate FFS.

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The GWFS are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary FFS. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Because the enterprise funds are combined into a single business-type activities column on the GWFS, certain interfund activities between these funds are eliminated in the consolidation for the GWFS, but are included in the fund columns in the proprietary FFS. The effect of interfund activity has been eliminated from the GWFS. For instance, 95.4 percent of the operations of WTMPA representing transactions between WTMPA and Lubbock Power & Light (LP&L) have been eliminated for the GWFS presentation and for the electric business-type activities (BTA). Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's electric, water and wastewater functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Fund Financial Statements

Governmental FFS are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This is the traditional basis of accounting for governmental funds. This presentation is necessary: 1) to demonstrate legal and covenant compliance; 2) to demonstrate the sources and uses of liquid resources; and 3) to demonstrate how the City's actual revenues and expenditures conform to the annual budget. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available, generally, if they are collected within 45 days of the end of the current fiscal period. The City considers the grant availability period to be one year for revenue recognition. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments are recorded only when the liability has matured. Because the governmental FFS are presented on a different basis of accounting than the GWFS, reconciliations are provided immediately following each fund statement. These reconciliations explain the adjustments necessary to convert the FFS into the governmental activities column of the GWFS.

Property taxes, sales taxes, franchise taxes, occupancy taxes, grants, licenses, court fines, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when the City receives cash.

Fund Accounting

The City uses funds to report its financial position and the results of its operations. Fund accounting segregates funds according to their intended purpose and is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts, which includes assets, deferred outflows, deferred inflows, liabilities, fund balance/net position, revenues, and expenditures/expenses.

Governmental Funds are those through which most of the governmental functions of the City are financed. The City reports two major governmental funds:

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

The **General Fund**, as the City's primary operating fund, accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The **Governmental Capital Projects Fund** accounts for financing and construction of government capital projects, except for North Overton and Central Business District Tax Increment Financing Reinvestment Zone (TIF) capital projects and Gateway Streets Fund capital projects. Projects include public safety improvements, park improvements, street improvements, purchase of and construction of municipal buildings, and major maintenance, repair, and replacement of public buildings and facilities.

Enterprise Funds are used to account for operations: 1) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered through user charges; or 2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City reports the following major enterprise funds:

LP&L Fund accounts for the activities of the city-owned electric production and distribution system.

The **Water Fund** accounts for the activities of the City's water system.

The **Wastewater Fund** accounts for the activities of the City's sanitary wastewater system.

The **WTMPA Fund** accounts for the activities of power generation and power brokering to member cities. Member cities include Lubbock with 95.4 percent of power usage, Tulia, Brownfield, and Floydada comprising the remaining 4.4 percent of power usage.

The **Storm Water Fund** accounts for the activities of the storm water utility.

The City also reports the following non-major funds:

Governmental Funds

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

The **Debt Service Fund** is used to account for and report financial resources that are restricted to expenditures for principal and interest (other than debt service payments made by proprietary funds).

Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays (other than those recorded in the proprietary funds).

Proprietary Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services or producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and of the City's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Enterprise Funds are used to account for services to outside users where the full cost of providing services, including capital, is to be recovered through fees and charges, e.g., Lubbock Preston Smith

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

International Airport (Airport Fund), Citibus (Transit Fund), Solid Waste, Cemetery, Civic Centers and Lake Alan Henry Recreational Funds.

Internal Service Funds are used to account for services provided to other departments, agencies of the departments, or to other governments on a cost reimbursement basis (i.e., fleet maintenance, print shop and warehouse, information technology, risk management, health benefits, and investment pool).

D. BUDGETARY ACCOUNTING

The City Manager submits a proposed operating budget and capital program to the City Council annually for the upcoming fiscal year. Annual budgets are adopted for the General Fund, Debt Service Fund, Enterprise Funds, Internal Service Funds, and certain Special Revenue Funds. Public hearings are conducted to obtain citizen comments, and the budget is legally enacted through passage of an ordinance by the Council. City Council action is also required for the approval of any supplemental appropriations.

All budget amounts presented in the General Fund Budgetary Comparison Schedule in the Required Supplementary Information (RSI) section reflect the original budget and the amended budget, which have been adjusted for legally authorized supplemental appropriations to the annual budget during the fiscal year. The operating budget is adopted on a basis other than GAAP for the General Fund, with the main difference being that capital lease proceeds and related capital outlay are not budgeted. Budgetary control is maintained at the department level in the General Fund in the following expenditure categories: compensation, benefits, supplies, maintenance, professional services/training, other charges, scheduled charges, and capital outlay/reimbursements. Management may make administrative transfers and increases or decreases between accounts below the department level without Council approval. However, to satisfy the legal level of control, any transfer of funds between departments shall be presented to the Council for approval by ordinance before such funds can be transferred between departments or expended. All annual operating appropriations lapse at the end of the fiscal year.

All budget amounts presented in the Special Revenue Funds and Debt Service Fund Budgetary Comparison Schedule in the Combining and Individual Fund Statements and Schedules section reflect the final budget amounts, which have been adjusted for legally authorized supplemental appropriations to the annual budget during the fiscal year. Budgetary control is maintained at the fund level, the legal level of control for Special Revenue Funds and Debt Service Funds. The following Special Revenue Funds have legally adopted budgets: Abandoned Motor Vehicle, Animal Assistance, Cable Services, Central Business District TIF, Community Development Grant, Criminal Investigation, Debt Service, Department of Justice Asset Sharing, Economic Development Incentive, Emergency Management Grant, Gateway Streets, Hotel Motel Tax, Lubbock Business Park TIF, Lubbock Economic Development Alliance, Municipal Court, North and East Lubbock Neighborhood and Infrastructure, North Overton PID, North Overton District TIF, North Point PID, Quincy Park PID, Valencia PID, and Vintage Township PID.

Capital budgets and grant budgets do not lapse at fiscal year end, but remain in effect until the project is completed and closed. The following funds have project length budgets: Donations, Community Services, Health, Library, Police, and Other Grants Special Revenue Funds; and the Governmental, TIF, and Gateway Streets Capital Projects Funds.

In addition to the tax levy for general operations, in accordance with state law, the City Council sets an ad valorem tax levy for a sinking fund (General Obligation and Certificate of Obligation Debt Service) which, with cash and investments in the fund, is sufficient to pay all debt service due during the fiscal year.

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

E. ENCUMBRANCES

At the end of the fiscal year, encumbrances for goods and services that have not been received are canceled except in the Capital Projects Fund. Management has authority, by ordinance, to re-appropriate any encumbrances that were open at the prior fiscal year end. At the beginning of the next fiscal year, management reviews all open encumbrances and approves needed encumbrances. In FY 2017, management approved reappropriation of \$346,849 in various funds as follows: Central Warehouse - \$250,000 and General Fund - \$96,849. There are no other significant encumbrances at year end that have not been restricted, committed, or assigned.

F. ASSETS, LIABILITIES, AND FUND BALANCE/NET POSITION

Equity in Cash and Investments - The City pools the resources of the various funds in order to facilitate the management of cash and enhance investment earnings. Records are maintained which reflect each fund's equity in the pooled account. Government agency bonds and municipal bond are stated at fair value; State Pools (TexStar, Logic, Texas CLASS) are stated at net asset value; and Money Market and TexPool are stated at amortized cost.

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand and demand deposits.

Investments- Investments include securities in the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Farm Credit Notes, Federal Agricultural Mortgage Corporation Municipal Bonds, Certificates of Deposit and Money Markets. Investments also include state investment pools. Restricted investments include investments that have been restricted for bond financed capital projects, funds that have been restricted by bond covenants for debt service requirements, funds accumulated for passenger facility charges, and funds restricted for a Department of Justice consent decree.

Property Tax Receivable - The value of all real and business property located in the City is assessed annually on January 1 in conformity with Subtitle E of the Texas Property Code. Property taxes are levied on October 1 on those assessed values and the taxes are due on receipt of the tax bill. On the following January 1, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. The taxes are considered delinquent if not paid before February 1. Therefore, at fiscal year-end, all property taxes receivable are delinquent, but are secured by a tax lien.

At the GWFS level, property tax revenue is recognized upon levy. In governmental funds, the City records property taxes receivable upon levy and defers tax revenue until the taxes are collected or available. For each fiscal year, the City recognizes revenue in the amount of taxes collected during the year plus an estimate of taxes to be collected in the subsequent 45 days. The City allocates property tax revenue between the General, certain Special Revenue, and Debt Service Funds based on tax rates adopted for the year of levy. The Lubbock Central Appraisal District assesses property values, bills, collects, and remits the property taxes to the City. The City adjusts the allowance for uncollectible taxes and deferred inflows of tax revenue at fiscal year-end based upon historical collection experience. To write off property taxes receivable, the City eliminates the receivable and reduces the allowance for uncollectible accounts.

Enterprise Funds Receivables - Within the LP&L, Water, Wastewater, Storm Water, and WTMPA Enterprise Funds, services rendered but not billed as of the close of the fiscal year are accrued. This amount is reflected in the accounts receivable balances of each fund. Amounts billed are reflected as accounts receivable net of an allowance for uncollectible accounts.

Inventories - Inventories consist of expendable supplies held for consumption. Inventories are valued using the average cost method of valuation, and are accounted for using the consumption method of accounting, i.e., inventory is expensed when used rather than when purchased.

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

Prepaid Items - Prepaid items are accounted for under the consumption method.

Capital Assets and Depreciation - Capital assets, including public domain infrastructure (streets, bridges, sidewalks and other assets that are immovable and of value only to the City), are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. These capital assets are reported in the GWFS and the proprietary funds. Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated assets are recorded at the estimated acquisition value on the date of donation.

Major outlays for capital assets and improvements are capitalized as the projects are constructed. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset life are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation is computed using the straight-line method over the estimated useful lives as follows:

Improvements Other Than Buildings	10-60 years
Buildings	15-50 years
Machinery and Equipment	3-15 years
Water Rights	85 years

Interest Capitalization – Because the City issues general-purpose capital improvement bonds, which are recorded within the proprietary funds, the City capitalizes interest costs for business-type activities and enterprise funds according to GASB Statement No. 62. The City capitalized interest of approximately \$8,252,693 net of interest earned, for the business-type activities and the enterprise funds during the current fiscal year.

Deferred Outflows/Inflows of Resources – Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The City has a deferred charge on a bond refunding, which is the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred or amortized over the shorter of the life of the refunded and new debt. The City also has deferred outflows for pensions related to contributions and investment experience.

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The City's deferred inflows include property taxes and municipal court fines in the governmental funds and pension actuarial differences in expected and actual experience in the proprietary and internal service funds.

For additional information on deferred outflows/inflows related to pensions, reference note III. G. Retirement Plans.

Classification of Fund Equity - Fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned in governmental funds. Nonspendable fund balance cannot be spent, either because it is not in spendable form or because of legal or contractual requirements. Restricted fund balances have constraints for specific purposes which are externally imposed by providers, such as creditors, grantors, or other governments; or by enabling legislation of the City Council. Committed fund balances can only be used for specific purposes pursuant to constraints imposed by the City Council through an ordinance, which is the highest action level by City Council. Assigned fund balances are constrained by intent to be used for specific purposes, but are neither restricted nor committed. Assignments are made by city management based on Council direction. Unassigned fund balances include residual positive fund balances within the General Fund that have not been classified within the other mentioned categories. Unassigned fund balances may also include negative balances for any

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

The City designates restricted amounts to be spent first if both restricted and unrestricted fund balances are available unless there are legal documents/contracts that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the City would first use committed, followed by assigned, and lastly unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

The proprietary funds and GWFS have three classifications of net position: 1) net investment in capital assets; 2) restricted net position; and 3) unrestricted net position. In the first category, capital assets are netted with bonded and capital lease debt. Restricted net position includes debt service, grantor, and other government restrictions for proprietary funds and the same categories as restricted fund balance for governmental activities.

The City Council has approved goals for the General Fund unrestricted fund balance, which is set at a minimum of an amount equal to twenty percent of operating revenues in order to meet unanticipated contingencies and fluctuations in revenue. Enterprise funds also have appropriable net position reserve policies, ranging from 8 to 25 percent of operating revenue. The LP&L Fund maintains general reserves equal to three months gross revenue from all retail electric sales as determined by taking the average monthly retail electric sales from the previous fiscal year.

Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, liabilities, deferred inflows, and disclosure of contingent assets and liabilities at the date of the financial statements along with reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

G. REVENUES, EXPENSES AND EXPENDITURES

Interest Income on pooled cash and investments is allocated monthly based on the percentage of a fund's pooled cash and investments monthly balance compared to the total city-wide monthly balance in pooled cash and investments. Bond funds and other separate non-pooled cash are distributed to the fund where the cash and investment is recorded.

Sales Tax Revenue for the City results from an allocation of 1.5 percent of the total sales tax levy of 8.25 percent, which is collected by the State of Texas and remitted to the City monthly. The tax is collected by the vendor and is required to be remitted to the State by the 20th of the month following collection. The tax is then paid to the City by the Friday following the second Wednesday of the subsequent month.

Grant Revenue from federal and state grants is recognized as revenue as soon as all eligibility requirements have been met. The availability period for grants is considered to be one year.

Interfund Transactions are accounted for as revenues, expenditures, expenses, or other financing sources or uses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from that fund that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. In addition, transfers are made between funds to shift resources from a fund legally authorized to receive revenue to a fund authorized to expend the revenue.

Compensated Absences consists of vacation leave, sick leave, and compensatory leave. Vacation leave of 10-20 days is granted to all regular employees dependent upon the date employed, years of service, and civil service status. Currently, up to 40 hours of vacation leave may be "carried over" to the next calendar year.

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

The City is obligated to make payment upon retirement or termination for employees in good standing for any available, unused vacation leave.

Sick leave for employees is accrued at 1 1/4 days per month with a maximum accrual status of 200 days. After 15 years of continuous full-time service for non-civil service personnel, vested sick leave is paid on retirement or termination at the current hourly rate for up to 90 days. Upon retirement or termination, Police Civil Service Personnel are paid for up to 90 days accrued sick leave regardless of reason for leaving or time with the City. Firefighter Civil Service Personnel are paid for up to 90 days of accrued sick leave upon retirement or termination. The Texas Civil Service laws dictate certain benefits and personnel policies above and beyond the policies of the City.

In accordance with the Fair Labor Standards Act and city policy, non-exempt employees may accrue compensatory time off instead of receiving payment for overtime hours worked. Compensatory time may be accrued up to 45 hours (30 overtime hours at time and one half) and must be used within 26 pay periods. In order to be eligible for compensatory time, each employee is required to sign an agreement with the City.

The liability for the accumulated vacation, sick, and compensatory time off is recorded in the GWFS and in the FFS for proprietary fund employees when earned. The liability is recorded in the governmental FFS to the extent it is due and payable.

Post-Employment Benefits for retirees of the City include the option to purchase health and life insurance with health insurance benefits at a subsidized premium. However, employees that retire with 15 or more years of service or Civil Service employees that retire who have a sick-leave balance in excess of 90 days will be able to elect to continue receiving medical coverage in full 30-day periods for the term of the balance of their sick leave. Retirees are required to pay a prorated premium for the days of coverage that are not funded by their excess sick leave. Amounts to cover premiums and administrative costs, with an incremental charge for reserve funding, are determined by the City's health care administrator. Employer contributions are funded on a pay-as-you-go basis and approximated \$5.6 million for FY 2017.

H. PENSIONS

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about fiduciary net position of the City's pension plans (Texas Municipal Retirement System - TMRS and the Lubbock Fire Pension Fund - LFPF) and additions to/deductions from the pension plans' fiduciary net position have been determined on the same basis as they are reported by each plan. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

I. NEW PRONOUNCEMENTS

In FY 2018, the City will implement GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), such as retiree health insurance. This statement addresses accounting and financial reporting by governments that provide OPEB to their employees or employees of other governments.

In FY 2018, the City will implement GASB Statement No. 85, *Omnibus 2017*. This statement addresses practice issues that have been identified during implementation and application of certain GASB Statements. It addresses a variety of topics such as reporting amounts previously reported as goodwill and "negative" goodwill for example.

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

In FY 2018, the City will also implement GASB Statement No. 86, *Certain Debt Extinguishment Issues*. This statement addresses financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources (resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the sole purpose of extinguishing debt.

The effects of these standards on the City's financial statements have not been determined.

NOTE II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. RESTRICTED NET POSITION

Restricted net position is only used for its intended purpose. For the majority of projects funded by tax exempt debt proceeds, the debt proceeds are used first, followed by unrestricted resources.

B. GENERAL FUND BUDGET COMPARISON

The General Fund FY 2017 amended budgeted expenditures and transfers out were \$176,295,580, while actual budgetary basis expenditures and transfers out were \$172,006,346; a difference of \$4,289,234.

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS

A. DEPOSITS AND INVESTMENTS

On September 30, 2017, the bank balance of the City's deposits was \$14,413,510. All of the bank balances are covered by federal depository insurance or are fully collateralized. Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned. The City's deposit policy for custodial credit risk requires compliance with the provisions of Texas Public Funds Investment Act.

State law requires federal depository insurance or collateralization with the value of eligible securities having an aggregate value at least equal to the amount of the deposits. The City's Investment Policy requires the minimum collateral level to be 102.0 percent of the market value of principal and accrued interest.

On September 30, 2017, bank balances were not exposed to custodial credit risk as follows:

Insured	\$ 750,000
Uninsured and collateral held by a third party financial institution in the City's name	<u>13,663,510</u>
	<u>\$ 14,413,510</u>

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

On September 30, 2017, the City had the following investments and maturities:

<u>Type</u>	September 30, 2017		
	Fair Value	Maturities in Years	
		Less Than 1	1-5
Federal Farm Credit Bank (FFCB)	\$ 12,935,307	\$ 3,995,935	\$ 8,939,372
Farmer Mac (FAMCA)	999,176		999,176
Federal Home Loan Bank (FHLB)	23,901,125	11,974,664	11,926,461
Federal Home Loan Mortgage Corporation (FHLMC)	18,452,144	12,985,225	5,466,919
Federal National Mortgage Association (FNMA)	15,864,130	7,984,525	7,879,605
Municipal Bonds	43,181,790	6,080,860	37,100,930
CD	618,917	618,917	-
Money Market	119,227	119,227	-
State Investment Pools *	389,794,758	389,794,758	-
	\$ 505,866,574	\$ 433,554,111	\$ 76,312,463

*State Investment Pools are considered investments for financial reporting purposes.

Investment in State Investment Pools

The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an Advisory Board composed both of participants in TexPool and of other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. Finally, TexPool is rated AAAM by Standard & Poor's. TexPool is not registered with the Securities and Exchange Commission (SEC) as an investment company.

TexSTAR's governing body is a five-member board of directors (the "Board"). Three directors are officers or employees of Participants; one director is an officer or employee of First Southwest Company, LLC; and the final director is an officer or employee of an affiliate of J.P. Morgan Investment Management Inc. TexSTAR's Bylaws also require the Board to appoint an advisory board. The Advisory Board currently consists of six members, each of whom is either (1) a representative of a Participant or (2) a person who has no business relationship with the Board, but who is qualified to advise the Board. The Advisory Board shall at all times include at least one member of each such designation. The investment objective and strategy of the pool is to seek preservation of principal, liquidity and current income through investment in a diversified portfolio of short-term marketable securities. The pool offers same day access to investment funds.

LOGIC was established pursuant to an Interlocal Agreement, which was subsequently amended and is now entitled Participation Agreement and Trust Instrument (the "Agreement") between participating Government Entities. Participation in the Pool is limited to those eligible Government Entities which have become parties to the Agreement ("Participants"). Participants' assets in the Pool are represented by units of beneficial interest ("Units"), which are issued in discrete series (each a "Portfolio"), as authorized from time to time by the Board. Assets invested in any Portfolio will be managed separately, and segregated from, the assets of every other Portfolio. Since September 2005, J.P. Morgan Investment Management Inc. (JPMIM) has served as investment adviser to LOGIC. FirstSouthwest, a Division of Hilltop Securities (FirstSouthwest) and JPMIM serve as co-

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

administrators to LOGIC, and FirstSouthwest provides administrative, participant support, and marketing services. JPMorgan Chase Bank N.A. provides custodial services. The investment objective and strategy of the pool is to seek preservation of principal, liquidity and current income through investment in a diversified portfolio of short-term marketable securities. The pool offers same day access to investment funds.

Texas CLASS Texas Cooperative Liquid Assets Securities System (Texas CLASS). Texas CLASS was created specifically for the use of Texas local government entities and seeks to provide safety, liquidity, convenience, and competitive rates of return. Public Trust Advisors, LLC serves as the pool's administrator and investment adviser. The marketing and operation functions of the portfolio are also performed by Public Trust Advisors, LLC. The pool is subject to the general supervision of the Board of Trustees and its Advisory Board, both of which are elected by the Texas CLASS Participants. Wells Fargo Bank, N.A. serves as custodian for the pool. The investment objective and strategy of the pool is to seek preservation of principal, liquidity and current income through investment in a diversified portfolio of short-term marketable securities. The pool offers same day access to investment funds.

Interest Rate Risk - As a means of limiting its exposure to fair value losses due to rising interest rates, the City's investment policy limits investments to those that can be held to maturity and by limiting final maturity to no more than five (5) years. The City uses the specific identification method for positions in fixed-rate securities. The investment pools have laddered out maturities within their funds, but are redeemable in full within one day to the governments investing in the pooled funds.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The City's policy allows investment in direct obligations of and other obligations guaranteed as to principal of the U.S. Treasury and U.S. agencies and instrumentalities with the exception of mortgage backed securities. It allows investment in obligations of the State of Texas or its agencies and obligations of states, agencies, counties, cities, and other political subdivisions rated not less than A or its equivalent. The City may also invest in collateralized certificates of deposit and constant dollar investment pools authorized by the City Council. On September 30, 2017, Standard & Poor's rated the investment pools AAAm. The senior unsecured debt for investments in FHLB, FAMCA, FFCB, FHLMC, and FNMA are rated AA+ by Standard & Poor's and Aaa by Moody's. The municipal bond investments are rated between an AAA and A- by S&P and between an Aaa and A1 by Moody's.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The City requires that deposits and repurchase agreements be held in an institution that has a minimum collateral level of 102.0 percent of the market value. FNMA, FAMCA, FFCB, FHLMC, FHLB and Municipal Bond investments are held in the City's name in third party safekeeping by a Federal Reserve member financial institution designated as a city depository. The City shall maintain a list of authorized broker/dealers and financial institutions, which are approved by the Audit and Investment Committee for investment purposes.

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

Concentration of Credit Risk - The City places limits on the amount that may be invested in any one issuer with the exception of United States Treasury obligations and State Investment Pools. As of September 30, 2017, the City's investments constituted the following percentages of total investments:

<u>Investment</u>	<u>Percentage</u>
State Investment Pools	77.05
Municipal Bonds	8.54
FHLB	4.72
FHLMC	3.65
FNMA	3.14
FFCB	2.56
FAMCA	.20
CD	.12
Money Market	.02

Foreign Currency Risk - This risk relates to adverse effects on the fair value of an investment from changes in exchange rates. The City has no foreign currency risk.

Disclosures about Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2017:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2017				
Investments by fair value level				
Federal Farm Credit Bank (FFCB)	\$ 12,935,307	\$ -	\$ 12,935,307	\$ -
Farmer Mac (FAMCA)	999,176	-	999,176	-
Federal Home Loan Bank (FHLB)	23,901,125	-	23,901,125	-
Federal Home Loan Mortgage Corporation (FHLMC)	18,452,144	-	18,452,144	-
Federal National Mortgage Association (FNMA)	15,864,130	-	15,864,130	-
Municipal Bonds	43,181,790	-	43,181,790	-
Total investments by fair value level	<u>\$ 115,333,672</u>	<u>\$ -</u>	<u>\$ 115,333,672</u>	<u>\$ -</u>
Investments measured at the net asset value				
TexStar	\$ 140,149,291			
LOGIC	128,685,779			
Texas Class	113,589,422			
Total investments measured at the NAV	<u>\$ 382,424,492</u>			
Investments measured at amortized cost				
TexPool	\$ 7,370,267			
Money Markets	119,227			
Non-Negotiable Certificate of Deposit	618,917			
Investments measured at amortized cost	<u>\$ 8,108,411</u>			
Total Investments	<u>\$ 505,866,575</u>			

Certain investments that are measured using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above approximate net asset value for all related external investment pool balances.

Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

B. INTERFUND TRANSACTIONS

Interfund balances, specifically, the due to and due from other funds, are short-term loans to cover temporary cash deficits in various funds. This occasionally occurs prior to bond sales or grant reimbursements.

Interfund balances are loans to cover Council directed internal financing of certain projects. On September 30, 2017 the City had \$17,826,746 of internal financing. These balances are assessed an interest charge and are repaid over time through operations and transfers.

The following amounts due to other funds or due from other funds are included in the fund financial statements (all amounts in thousands):

Interfund Receivables: (in Thousands)					
Interfund Payables: (in Thousands)	Governmental Funds		Proprietary Funds		Totals
	General	Nonmajor Governmental	WTMPA	Nonmajor Enterprise	
Governmental Funds:					
Nonmajor Governmental	\$ 1,285	\$ -	\$ -	\$ -	\$ 1,285
Proprietary Funds:					
LP&L	-	-	14,823	-	14,823
Nonmajor Enterprise	1,719	-	-	-	1,719
Totals	\$ 3,004	\$ -	\$ 14,823	\$ -	\$ 17,827

Transfers include: 1) debt service payments made from the debt service fund, but funded from an operating fund; 2) subsidy transfers from unrestricted funds; and 3) transfers to move indirect cost allocations, payments in lieu of taxes (PILOT), and franchise fees to the general fund or other funds as appropriate.

The following interfund transfers are reflected in the fund financial statements (all amounts in thousands):

Interfund Transfers In: (in Thousands)										
Interfund Transfers Out: (in Thousands)	Governmental Funds			Proprietary Funds					Internal Service	Totals
	General	Govt. Capital	Nonmajor Govt.	Electric	Waste- water	WTMPA	Water	Nonmajor Enterprise		
Governmental Funds:										
General Fund	\$ -	\$ 4,731	\$ 410	\$ -	\$ -	\$ -	\$ -	\$ 3,223	\$ -	\$ 8,364
Govt. Capital Projects	-	-	513	-	-	-	-	-	-	513
Nonmajor Govt.	150	126	13,005	-	-	-	-	3,184	-	16,465
Proprietary Funds:										
LP&L	10,075	-	4,504	-	-	1,401	-	-	-	15,980
Water	9,685	-	-	93	31	-	-	-	-	9,809
Wastewater	5,015	-	-	-	-	-	-	-	-	5,015
Stormwater	2,629	-	5,308	-	-	-	-	-	-	7,937
Nonmajor Enterprise	4,252	-	-	-	31	-	164	-	-	4,447
Internal Service	-	-	-	-	-	-	-	-	303	303
Totals	\$31,806	\$ 4,857	\$ 23,740	\$ 93	\$ 62	\$ 1,401	\$ 164	\$ 6,407	\$ 303	\$ 68,833

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

Net transfers on the GWFS amounted to \$34,989,088 from business activities to governmental-type activities.

C. PREPAID EXPENSES

The total prepaid expenses (noncurrent assets) of \$1,611,109 in the LP&L Enterprise Fund represents an advertising contract with the United Supermarket Arena. The advertising (and amortization) began with the opening of the sports arena in FY 2000 and will continue for 30 years.

D. GOODWILL

The goodwill of \$796,812 in the LP&L Enterprise Fund represents the unamortized excess purchase price over the estimated value of capital assets related to the purchase of Southwestern Public Service Company (SPS) in 2011. The goodwill is being amortized over a 10-year period.

E. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2017, was as follows:

Primary Government:

Governmental Activities

	Beginning Balances	Increases	Decreases	Ending Balances
Capital Assets Not Depreciated:				
Land	\$ 24,245,757	\$ 1,085,918	\$ -	\$ 25,331,675
Construction in Progress	28,267,600	30,034,559	27,994,449	30,307,710
Total Capital Assets Not Depreciated	52,513,357	31,120,477	27,994,449	55,639,385
Capital Assets Depreciated:				
Buildings	62,923,390	4,263,368	56,206	67,130,552
Improvements Other than Buildings	537,033,469	30,333,319	775,695	566,591,093
Machinery and Equipment	104,196,068	9,777,587	4,929,258	109,044,397
Total Capital Assets Depreciated	704,152,927	44,374,274	5,761,159	742,766,042
Less Accumulated Depreciation:				
Buildings	30,260,379	1,773,884	51,937	31,982,326
Improvements Other than Buildings	255,237,211	25,836,708	769,474	280,304,445
Machinery and Equipment	59,929,855	8,151,881	4,339,554	63,742,182
Total Accumulated Depreciation	345,427,445	35,762,473	5,160,965	376,028,953
Total Capital Assets Depreciated, Net	358,725,482	8,611,801	600,194	366,737,089
Governmental Activities Capital Assets, Net	\$ 411,238,839	\$ 39,732,278	\$ 28,594,643	\$ 422,376,474

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

Depreciation expense was charged to functions/programs of the governmental activities as follows:

Governmental activities:

Administrative Services and General Government	\$ 476,065
Community Services	150,388
Cultural and Recreation Services	3,817,829
Economic and Business Development	2,030,231
Fire	2,000,790
Health	396,274
Other Public Safety	154,659
Police	2,352,294
Streets and Traffic	20,951,221
Internal Service Funds	<u>2,587,235</u>
Total Depreciation Expense - Governmental Activities	34,916,986
Transfer in of Accumulated Depreciation - Business-Type Activities	<u>845,487</u>
Increase in Accumulated Depreciation - Governmental Activities	<u><u>\$ 35,762,473</u></u>

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

Business Type Activities

	Beginning Balances	Increases	Decreases	Ending Balances
Capital Assets Not Depreciated:				
Land	\$ 56,124,326	\$ 1,554,811	\$ -	\$ 57,679,137
Construction in Progress	177,642,037	110,045,935	79,965,893	207,722,079
Electric Production Plant	75,410	-	-	75,410
Electric Transmission Plant	35,046	-	-	35,046
Electric Distribution Plant	16,365,633	28,879	-	16,394,512
Electric General Plant	302,521	-	-	302,521
Total Capital Assets Not Depreciated	250,544,973	111,629,625	79,965,893	282,208,705
Capital Assets Depreciated:				
Buildings	180,499,788	983,038	5,438	181,477,388
Improvements Other than Buildings	1,208,822,193	70,241,348	1,545,223	1,277,518,318
Machinery and Equipment	186,824,493	9,533,794	7,489,962	188,868,325
Electric Production Plant	97,196,381	1,145,347	8,963,842	89,377,886
Electric Transmission Plant	44,666,782	389,761	85,832	44,970,711
Electric Distribution Plant	262,503,954	9,104,063	1,214,304	270,393,713
Electric Regional Trans Mkt Oper Plant	154,818	1,038,884	-	1,193,702
Electric General Plant	29,609,922	2,375,977	456,779	31,529,120
Total Capital Assets Depreciated	2,010,278,331	94,812,212	19,761,380	2,085,329,163
Less Accumulated Depreciation:				
Buildings	77,247,203	4,637,467	5,438	81,879,232
Improvements Other than Buildings	392,721,711	29,661,961	1,222,934	421,160,738
Machinery and Equipment	108,353,189	11,652,954	7,069,318	112,936,825
Electric Production Plant	60,465,257	3,567,062	8,445,779	55,586,540
Electric Transmission Plant	15,918,486	602,315	85,832	16,434,969
Electric Distribution Plant	139,981,604	10,662,508	1,207,783	149,436,329
Electric Regional Trans Mkt Oper Plant	23,270	134,822	-	158,092
Electric General Plant	17,438,305	2,051,873	99,364	19,390,814
Total Accumulated Depreciation	812,149,025	62,970,962	18,136,448	856,983,539
Total Capital Assets Depreciated, Net	1,198,129,306	31,841,250	1,624,932	1,228,345,624
Business Type Activities Capital Assets, Net	\$ 1,448,674,279	\$ 143,470,875	\$ 81,590,825	\$ 1,510,554,329

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

Depreciation expense was charged to functions/programs of the business-type activities as follows:

Business-Type Activities:

LP&L	\$ 16,894,595
Water	16,877,783
Wastewater	9,568,844
Storm Water	3,797,252
Solid Waste	4,353,983
Airport	7,567,558
Transit	1,244,069
Civic Centers	1,229,849
Cemetery	45,332
Lake Alan Henry	5,073
Internal Service	167,077
Total Depreciation Expense - Business-Type Activities	<u>61,751,415</u>
Transfer in of Accumulated Depreciation - Governmental Activities	<u>1,219,547</u>
Increase in Accumulated Depreciation - Business-Type Activities	<u><u>\$ 62,970,962</u></u>

Construction Commitments

The City has active construction projects at fiscal year end.

Projects	Original Commitments	Spent-to-Date	Remaining Commitments
Governmental Capital Projects	\$ 194,379,714	\$ 117,708,954	\$ 76,670,760
TIF Capital Projects	17,147,031	8,687,501	8,459,530
Gateway Street Projects	14,385,022	12,892,653	1,492,369
LP&L	61,904,327	21,588,076	40,316,251
Water	110,332,295	72,759,227	37,573,068
Wastewater	216,779,098	180,903,015	35,876,083
Storm Water	78,589,900	51,619,036	26,970,864
Solid Waste	8,952,228	734,814	8,217,414
Airport	64,402,670	41,721,206	22,681,464
Civic Center	10,093,549	8,701,192	1,392,357
Cemetery	71,375	66,045	5,330
Internal Service Fund	13,940,520	13,261,503	679,017
Total	<u><u>\$ 790,977,729</u></u>	<u><u>\$ 530,643,222</u></u>	<u><u>\$ 260,334,507</u></u>

Major strides have been made on Citizens Tower which will be the new City Hall starting in 2019. The project scope consists of demolition of the parking garage, which will be converted to surface parking. The building is a concrete structure with 11 stories above grade and two separate basement areas. It is located at the intersection of 14th Street and Avenue K in downtown Lubbock.

Work continues on construction of a new Northwest Water Reclamation Plant. The new plant will handle 5 million gallons of wastewater a day with the ability to expand to 15 million gallons. The new plant will also produce stream quality effluent that may be discharged into the Brazos River for potential reuse.

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

Another large wastewater project involves improving the wastewater treatment facilities so that the plant can produce a consistent supply of stream quality discharge into the North Fork of the Double Mountain Fork of the Brazos River.

Storm water infrastructure is being improved in the Northwest Lubbock and Maxey Park project. This project will help provide flood protection around Maxey Park and along Quaker Avenue.

F. CAPITAL LEASES

In FY 2009, the City constructed a \$23,662,637 conference center that is joined to the Overton Hotel and Conference Center. The City is the lessor of the conference center to the developer of the North Overton Hotel in a sales-type lease agreement in which the conference center has an estimated life of 50 years and was leased for a term of 40 years with two optional 20-year renewals. The City expects the lessee to lease the entire 80-year term; therefore, there is no expected residual value of the conference center to the City. Lease terms include the greater of \$65,000 per year or 15 percent of the excess of the net annual project cash flow, and one percent of the total daily collected net hotel room revenue. In FY 2017 the City received \$92,501 in contingent hotel revenue. For years 2030 through 2050, there will be no lease payments.

The minimum lease payments (included in leases receivable on GWFS) are estimated as follows:

Year	Fixed Lease
2018	\$ 45,668
2019	43,912
2020	42,223
2021	40,599
2022	39,037
2023-2027	173,787
2028-2029	60,517
Total	<u>\$445,743</u>

G. RETIREMENT PLANS

Each qualified employee is included in one of two retirement plans in which the City participates. These are the Texas Municipal Retirement System (TMRS) and the Lubbock Fire Pension Fund (LFPF). The City does not maintain the accounting records, hold the investments, or administer either retirement plan.

The total (aggregate for the TMRS and LFPF plans) of the City's net pension liabilities, deferred outflows of resources and deferred inflows of resources related to pensions as of September 30, 2017 and the pension expense for the year ended is as follows:

	TMRS	LFPF	Total
Net pension liability	\$126,048,532	\$92,000,557	\$218,049,089
Deferred outflows of resources	37,822,134	34,806,960	72,629,094
Deferred inflows of resources	3,354,285	1,307,827	4,662,112
Pension expense	24,802,042	16,349,934	41,151,976

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

Summary of significant data for each retirement plan follows:

TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)

Plan Description

The City participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

All eligible employees of the City are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The plan provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2016
Employee Deposit Rate	7.0%
Matching Ratio (City to Employee)	2 to 1
Years Required for Vesting	5
Service Retirement Eligibility (Expressed as Age/Years of Service)	60/5, 0/20

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	1,278
Inactive employees entitled to but not yet receiving benefits	690
Active employees	1,743
Total	<u>3,711</u>

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 17.96% and 17.95% in calendar years 2016 and 2017, respectively. The City's contribution to TMRS for the year ended September 30, 2017, were \$17,128,597, and were equal to the required contributions.

Net Pension Liability

The City's net pension liability (NPL) was measured as of December 31, 2016, and the total pension liability (TPL) used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. Those assumptions were first used in the December 31, 2013 valuation, along with a change to Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with and adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	100.0%	

Discount rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability

	Total Pension Liability	Increase (Decrease) Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balance at September 30, 2016	\$ 653,584,576	\$ 528,295,289	\$125,289,287
Changes for the year:			
Service cost	15,823,941	-	15,823,941
Interest	43,569,660	-	43,569,660
Difference between expected and actual experience	(116,124)	-	(116,124)
Contributions – employer	-	16,727,368	(16,727,368)
Contributions - employee	-	6,519,575	(6,519,575)
Net investment income	-	35,696,237	(35,696,237)
Benefit payments, including refunds of employee contributions	(32,040,199)	(32,040,199)	-
Administrative expense	-	(403,223)	403,223
Other changes	-	(21,725)	21,725
Net changes	\$ 27,237,278	\$ 26,478,033	759,245
Balance at September 30, 2017	\$680,821,854	\$ 554,773,322	\$126,048,532

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

Sensitivity of the net pension liability to changes in the discount rate

The following represents the net pension liability of the City, calculated using the discount rate of 6.75, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75)
City's net pension liability	\$218,409,064	\$126,048,532	\$50,078,881

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

Pension Expense and Deferred Outflow of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2017 the City recognized pension expense of \$24,802,042.

At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference in expected and actual experience	\$ -	\$ 3,354,285
Difference in assumption changes	604,082	-
Difference between projected and actual investment earnings	24,644,073	-
Contributions subsequent to the measurement date	12,573,979	-
Total	<u>\$ 37,822,134</u>	<u>\$ 3,354,285</u>

\$12,573,979 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability as of September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending September 30:	
2018	\$ 7,163,000
2019	7,576,221
2020	7,174,814
2021	(20,165)
Total	<u>\$21,893,870</u>

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

LUBBOCK FIRE PENSION FUND (LFPF)

Plan Description

The Board of Trustees of the LFPF is the administrator of a single-employer defined benefit pension plan. This pension fund is a trust fund. It is reported by the City as a related organization and is not considered to be a part of the City financial reporting entity. Firefighters in the Lubbock Fire Department are covered by the LFPF.

Benefits Provided

The LFPF provides service retirement, death, disability, and withdrawal benefits. These benefits fully vest after 20 years of credited service. A partially vested benefit is provided for firefighters who terminate employment with at least 10 but less than 20 years of service. Employees may retire at age 50 with 20 years of service. A reduced early service retirement benefit is provided for employees who terminate employment with 20 or more years of service. The LFPF Plan, most recently amended on September 9, 2015, provides a monthly normal service retirement benefit, payable in a Joint and Two-Thirds to Spouse form of annuity, equal to 68.92 percent of final 48-month average salary plus \$335.05 per month for each year of service in excess of 20 years.

A firefighter has the option to participate in a Retroactive Deferred Retirement Option Plan (RETRO DROP) which provides a lump sum benefit and a reduced annuity upon termination of employment. Firefighters must be at least 51 years of age with 21 years of service at the selected "RETRO DROP benefit calculation date" (which is prior to date of employment termination). Early RETRO DROP with benefit reductions is available at age 50 with 20 years of service for the selected "early RETRO DROP benefit calculation date." A Partial Lump Sum option is also available where a reduced monthly benefit is determined based on an elected lump sum amount such that the combined present value of the benefits under the option is actuarially equivalent to that of the normal form of the monthly benefit. Optional forms are also available at varying levels of surviving spouse benefits instead of the standard two-thirds form.

There is no provision for automatic post-retirement benefit increases. LFPF has the authority to provide, and has periodically provided for in the past, ad hoc post-retirement benefit increases. The benefit provisions of this plan are authorized by the Texas Local Fire Fighter's Retirement Act (TLFFRA). TLFFRA provides the authority and procedure to amend benefit provisions. Amending the plan requires approval of any proposed change by: a) an eligible actuary and b) a majority of the participating members of the fund.

At the December 31, 2016 measurement date, the following employees were covered by the benefit terms:

Retirees and beneficiaries currently receiving benefits	289
Terminated employees entitled to but not yet receiving benefits	2
Active employees	402
Total	<u>693</u>

Contributions

The contribution provisions of this plan are authorized by TLFFRA. TLFFRA provides the authority and procedure to change the amount of contributions determined as a percentage of pay by each firefighter and a percentage of payroll by the city. While the actual contribution rates are not actuarially determined, state law requires that each plan of benefits adopted by LFPF be approved by an eligible actuary. The actuary certifies that the contribution commitment by the firefighters and the city provides an adequate financing arrangement. Using the entry age actuarial cost method, LFPF's service cost contribution rate is determined as a percentage

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

of payrolls. The excess of the total contribution rate over the service cost contribution is used to amortize LFPF's net pension liability, if any, and the number of years needed to amortize LFPF's net pension liability, if any is determined using a level percentage of payroll method. The costs of administering the plan are financed by LFPF.

Employees were required to contribute 12.43% of their annual gross earnings during the fiscal year. The contribution rates for the City were 21.73% and 21.72% in calendar years 2016 and 2017, respectively. The City's contributions to LFPF for the year ended September 30, 2017 were \$7,071,721 and were equal to the required contributions.

Net Pension Liability

The LFPF's net pension liability (NPL) was measured as of December 31, 2016, and the total pension liability (TPL) used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	4.0% per year, compounded annually
Investment Rate of Return	7.75%, compounded annually

The mortality, disability, and termination decrements are assumed to be annual rates, rather than probabilities, and are adjusted for the interaction between competing decrements. There was no adjustment for the interaction between those three decrements and the retirement decrement. The 7.75 percent rate of return was set by examining the fund's rate of return history and by taking into account future expected rates of return for portfolios with similar asset allocations. The assumed 7.75 percent rate can be considered to include provision for inflation at 3.00 percent per year, although other combinations of real return, risk premium, and inflation are also accounted for by a 7.75 assumed rate. The rate of return is net of trust expenses. The same inflation component was used in the assumed rate of return on the actuarial value of assets, the assumed increases in compensation for individual members, and the other actuarial assumptions.

The valuation includes provisions for mortality improvement to 2024. The mortality table used in the valuation is updated periodically. The actuaries are not aware of any significant event that has occurred since the valuation date that would have materially changed any of the demographic assumptions selected for the valuation.

The assumed rate of return was developed using both the plan's historical rates of return and expected future rates of return. Rate of return experience studies have been performed in connection with the Plan's valuations.

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Cash and Equivalents	0.00%	0.00%
Fixed Income		
a. Core Bonds	10.00%	3.00%
b. Floating Rate Debt	5.00%	3.00%
c. Private Credit and Real Estate Debt	10.00%	4.50%
Equities, Real Estate and Alternative Investments		
a. Public Equities	45.00%	7.25%
b. Private Equities	10.00%	7.25%
c. Private Equities (Real Estate)	10.00%	8.60%
d. Value Added Equity (Real Estate)	5.00%	8.60%
e. Low Volatility	5.00%	3.50%
Totals	100.00%	

The demographic assumptions were chosen based on expected future rates of retirement, mortality, disability, and termination. Mortality was taken from published studies and was updated to reflect future improvement. Retirement and salary increase rates were developed based on the Plan's own experience. Disability and termination rates were based on published rates, adjusted as necessary, to conform to the Plan's own experience. Demographic assumptions were tested in connection with the valuation.

Both economic and demographic assumptions were further tested through calculation of the Plan's aggregate experience with respect to both demographic decrements and economic assumptions.

The assumed rate of return on the actuarial value of assets was 7.75 percent per annum.

The mortality table used for the valuation was changed from (a) the Employee and Healthy Annuitant Combined Rates from the RP-2000 Mortality Table, projected to 2015 using Scale AA, with separate rates for males and females, to (b) the Employee and Healthy Annuitant Combined Rates from the RP-2000 Mortality Table, projected to 2024 using Scale AA, with separate rates for males and females. The mortality changes were made in order to recognize mortality improvement through the valuation date and provide a margin for future mortality improvement. Disability rates were changed from SOA Disability Study Table, Class 1 rates, to tabular rates. Termination rates were not changed; however, they were listed as tabular rates, rather than under their original name, Table T-1 from the Actuary's Pension Handbook.

The assumed City contribution rate was increased to 21.81 percent of compensation, the rate at which the City of Lubbock will begin contributing to the plan in 2018. The assumed City contribution rate for the 2014 valuation was 22.73 percent of compensation.

Discount rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

Changes in the Net Pension Liability	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at September 30, 2016	\$ 256,629,244	\$ 172,836,186	\$ 83,793,058
Changes for the year:			
Service cost	6,133,418	-	6,133,418
Interest	19,752,539	-	19,752,539
Difference between expected and actual experience	1,284,558	-	1,284,558
Contributions – employer	-	6,598,900	(6,598,900)
Contributions – employee	-	3,774,706	(3,774,706)
Net investment income	-	7,668,252	(7,668,252)
Benefit payments, including refunds of employee Contributions	(15,782,381)	(15,782,381)	-
Administrative expense	-	(322,882)	322,882
Other changes	-	1,244,040	(1,244,040)
Net changes	\$ 11,388,134	\$ 3,180,635	\$ 8,207,499
Balance at September 30, 2017	\$268,017,378	\$ 176,016,821	\$ 92,000,557

Sensitivity of the net pension liability to changes in the discount rate

The following represents the net pension liability of the City, calculated using the discount rate of 7.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease in Discount Rate (6.75%)	Discount Rate (7.75%)	1% Increase in Discount Rate (8.75%)
City's net pension liability	\$122,787,930	\$92,000,557	\$66,095,352

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued LFPF financial report. That report can be obtained by contacting the Board of Trustees, LFPF, 15 Briercroft Office Park, Lubbock, TX 79412 or at www.lubbockfirepensionfund.com.

Pension Expense and Deferred Outflow of Resources and Deferred Inflows of Resources Related to Pension

For the year ended September 30, 2017, the City recognized pension expense of \$16,349,934.

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ 1,159,725	\$ 1,307,827
Changes in actuarial assumptions	7,258,794	-
Difference between projected and actual investment earnings	21,106,610	-
Contributions subsequent to the measurement date	5,281,831	-
Total	\$ 34,806,960	\$ 1,307,827

\$5,281,831 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability as of September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending September 30:	
2018	\$ 8,380,750
2019	8,380,751
2020	5,776,834
2021	1,957,952
2022	847,419
Thereafter	2,873,596
Total	\$28,217,302

H. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description

The City sponsors and administers an informal single-employer health/dental plan. Texas statute provides that retirees from a municipality with a population of 25,000 or more and that receive retirement benefits from a municipal retirement plan are entitled to purchase continued health benefits coverage for the person and the person's dependents unless the person is eligible for group health benefits coverage through another employer. The State of Texas has the authority to establish and amend the requirements of this statute. The City does not issue stand-alone financial statements for the health/dental plan. However, all required information is presented in this report.

Funding Policy

The contribution requirements of plan members are established by the City and may be amended as needed. Retiree medical/dental coverage levels for retirees are the same as coverage provided to active city employees in accordance with the terms and conditions of the current City Benefit Plan. Employees who retire with 15 or more years of service or Civil Service employees that retire who have a balance in excess of 90 days sick leave are eligible to continue receiving medical coverage in full 30-day periods for the term of their sick leave balance. They are required to pay a prorated premium for the days of coverage that are not funded by their excess sick leave. Plan members may purchase retiree health/dental care coverage for eligible spouses and dependents at their own expense and receive a benefit from the blended premium rate from all of the employees

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

participating in the City's health insurance plans. The City is not required to make contributions to the plan on behalf of the retirees and funds the plan on a projected pay-as-you-go financing method. The plan has 713 active participants who pay monthly premiums of \$362/\$22 (medical/dental) for single coverage and \$826/\$49 (medical/dental) for family coverage, pre-65. For post-65, monthly premiums are \$196/22 (medical/dental) for single coverage and \$587/\$49 (medical/dental) for family coverage.

Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB expense is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of accrual that is projected to recognize the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The annual OPEB cost for the fiscal year ended September 30, 2017 is as follows:

Annual Required Contribution (ARC)	\$10,675,239
Interest on Net OPEB Obligation	2,670,612
Adjustment to the ARC	<u>(2,680,770)</u>
Annual OPEB Cost	10,665,081
Total Annual Employer Contribution, pay-as-you-go	<u>(5,621,552)</u>
Increase in Net OPEB Obligation	5,043,529
Net OPEB Obligation – Beginning of Year	<u>71,216,321</u>
Net OPEB Obligation – End of Year	<u>\$76,259,850</u>

Three-Year Trend Information

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
09/30/2015	\$14,544,646	34.7%	\$59,911,103
09/30/2016	16,312,328	34.7%	71,216,321
09/30/2017	10,665,081	52.7%	76,259,850

Funded Status and Funding Progress: As of October 1, 2015, the most recent updated actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$120,877,439; and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$120,877,439. The covered payroll was \$122,938,662, and the ratio of the UAAL to the covered payroll was 98.3 percent.

Actuarial Methods and Assumptions: The individual entry age actuarial cost method was used to calculate the GASB ARC for the City's health care plan. Using the Plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The individual entry-age actuarial cost method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

Projections of health benefits are based on the plan as understood by the City and include the pattern of sharing benefit costs between the City and the City's employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

Significant methods and assumptions were as follows:

Inflation rate	2.5% per annum
Investment rate of return	3.75% per annum, net of expenses
Actuarial cost method	Individual Entry Age Normal Cost Method
Amortization method	Level as a percentage of employee payroll
Amortization period	30-year open amortization
Payroll growth	3.0% per annum
Healthcare trend	Initial rate of 7.0% declining to an ultimate rate of 4.5% after 13 years

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the City's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time, relative to actuarial accrued liability for benefits.

I. DEFERRED COMPENSATION

The City offers its employees five deferred compensation plans in accordance with Internal Revenue Code ("IRC") Section 457. The plans, available to all city employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The plans' assets are held in trust for the exclusive benefit of the participants and their beneficiaries. The City does not provide administrative services or have any fiduciary responsibilities for these plans; therefore, they are not presented in the BFS.

J. SURFACE WATER SUPPLY

Canadian River Municipal Water Authority

The Canadian River Municipal Water Authority (CRMWA) is a Conservation and Reclamation Authority established by the Texas Legislature to construct a dam, water reservoir, and aqueduct system for the purpose of supplying water to surrounding cities. The Authority was created in 1953 and is comprised of eleven cities, including Lubbock. The budget, financing, and operations of the Authority are governed by a Board of Directors selected by the governing bodies of each of the member cities, each city being entitled to one or two members dependent upon population. At September 30, 2017, the Board was comprised of 18 members, two of which represented the City. The City contracted with the CRMWA to reimburse CRMWA for a portion of the cost of the Canadian River Dam and aqueduct system in exchange for surface water. The City's pro-rata share of annual fixed and variable operating and reserve assessments are recorded as an expense of obtaining surface water. The City has four contract revenue bonds to pay for the water rights. These assets and liabilities are recorded in the Water Enterprise Fund.

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

K. LONG-TERM DEBT

GENERAL OBLIGATION BONDS AND CERTIFICATES OF OBLIGATION:

Interest Rate%	Dated	Maturity Date	Amount Issued	Outstanding 09/30/17
4.80	04/15/08	08/15/28	2,035,000	95,000
4.42	04/15/08	08/15/28	80,485,000	4,075,000
2.45	06/01/08	08/15/28	22,615,000	13,505,000
4.67	03/01/09	08/15/29	2,645,000	660,000
3.12	03/01/09	08/15/19	20,540,000	1,555,000
4.53	03/01/09	08/15/29	58,705,000	14,620,000
2.16	01/01/10	02/15/30	19,945,000	14,270,000
3.27	02/15/10	02/15/30	8,840,000	2,495,000
5.69	02/15/10	02/15/30	15,320,000	15,320,000
2.70	02/15/10	02/15/30	48,955,000	6,930,000
5.67	02/15/10	02/15/30	96,540,000	96,540,000
1.93	10/05/10	02/15/30	41,000,000	29,120,000
3.85	03/15/11	02/15/22	16,320,000	4,520,000
3.85	03/15/11	02/15/31	14,135,000	11,025,000
3.94	03/15/11	02/15/31	112,230,000	82,685,000
3.35	04/01/12	02/15/32	12,395,000	10,110,000
3.43	04/01/12	02/15/32	66,075,000	51,500,000
3.28	04/01/12	02/15/31	15,200,000	10,285,000
1.61	05/21/13	02/15/21	39,705,000	31,615,000
2.05	05/21/13	02/15/33	42,075,000	37,050,000
2.80	05/21/13	02/15/33	49,440,000	39,630,000
2.64	05/01/14	02/15/26	44,920,000	39,335,000
3.25	05/01/14	02/15/34	62,900,000	55,345,000
3.11	04/15/15	02/15/35	102,490,000	96,305,000
2.42	04/15/15	02/15/28	129,665,000	113,930,000
3.21	05/01/15	02/15/31	28,305,000	27,435,000
2.41	04/15/16	02/15/34	26,660,000	26,325,000
2.72	04/15/16	02/15/36	101,305,000	98,500,000
2.47	11/1/2016	02/15/34	36,780,000	36,005,000
0.00	02/16/17	02/15/37	35,000,000	35,000,000
3.20	04/15/17	02/15/37	23,290,000	23,290,000
Total			<u>\$ 1,376,515,000</u>	<u>\$ 1,029,075,000(A)</u>

(A) Excludes net bond premiums and discounts – (\$50,966,492) business-type and (\$30,066,071) governmental. Additionally, this amount includes \$710,892,185 of bonds used to finance enterprise fund activities.

At September 30, 2017, management of the City believes the City was in compliance with all financial bond covenants on outstanding general obligation bonded debt, certificates of obligation, tax notes, electric revenue bonded debt, and water contract bonded debt.

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

LP&L REVENUE BONDS

Interest Rate (%)	Issue Date	Final Maturity Date	Amount Issued	Balance Outstanding 09/30/17
2.45	10/15/10	4/15/20	73,295,000	24,890,000
1.90	4/15/13	4/15/24	16,570,000	10,210,000
3.09	5/01/14	4/15/34	16,245,000	13,545,000
3.41	4/15/15	4/15/35	11,865,000	11,050,000
3.04	4/15/16	4/15/46	7,535,000	7,225,000
3.60	08/15/17	02/15/47	17,760,000	17,760,000
Total			<u>\$ 143,270,000</u>	<u>\$ 84,680,000 *</u>

* Balance outstanding excludes (\$7,421,228) of net bond premiums and discounts.

Debt is secured by a first lien on and pledge of the net revenues of the City's Electric Light and Power System. Remaining interest required to amortize all outstanding debt equals \$30.1 million.

The general purpose for the debt is for acquiring, purchasing, constructing, improving, renovating, enlarging, and/or equipping property, buildings, structures, facilities and/or related infrastructure for the Electric Light and Power System. Net revenue available for debt service is 3.4 times the debt service requirements in FY17.

CONTRACT BONDS

Interest Rate (%)	Issue Date	Final Maturity Date	Amount Issued	Balance Outstanding 09/30/17
3.50 to 5.00	10/30/09	1/15/29	7,821,091	5,504,966
4.00 to 5.00	12/22/11	1/15/31	30,594,108	24,101,495
2.00 to 5.00	1/20/2013	2/15/25	10,970,000	8,369,583
2.00 to 5.00	12/02/14	2/15/27	11,078,489	9,813,267
Total			<u>\$ 60,463,688</u>	<u>\$ 47,789,311 *</u>

* Balance outstanding excludes (\$4,226,990) of bond premiums.

TAX NOTE

Interest Rate (%)	Issue Date	Final Maturity Date	Amount Issued	Balance Outstanding 09/30/17
1.78	07/11/17	02/15/24	18,220,000	18,220,000
Total			<u>\$ 18,220,000</u>	<u>\$ 18,220,000</u>

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

The annual requirements to amortize all outstanding debt of the City as of September 30, 2017 are as follows:

Fiscal Year	Governmental Activities			
	General Obligation Bonds		Tax Notes	
	Principal	Interest	Principal	Interest
2018	\$ 26,445,546	\$ 13,757,038	\$ 3,197,808	\$ 181,766
2019	26,478,891	12,583,118	2,043,593	116,976
2020	26,339,757	11,463,881	1,286,305	87,340
2021	25,531,974	10,309,646	1,037,002	66,662
2022	25,070,071	9,151,519	1,055,743	48,037
2023-2027	105,586,152	29,250,936	2,170,833	38,835
2028-2032	59,110,424	9,870,566	-	-
2033-2037	23,620,000	1,568,575	-	-
Totals	<u>\$ 318,182,815</u>	<u>\$ 97,955,279</u>	<u>\$ 10,791,284</u>	<u>\$ 539,616</u>

Fiscal Year	Business-Type Activities					
	General Obligation Bonds		Tax Notes		Revenue/Contract Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 51,324,455	\$ 28,885,336	\$ 2,517,191	\$ 122,317	\$ 15,009,034	\$ 5,695,022
2019	51,161,109	26,917,012	1,506,407	74,018	15,654,402	5,284,773
2020	49,595,242	25,057,021	843,695	53,102	16,273,060	4,637,820
2021	49,738,026	23,082,805	622,998	40,049	7,928,391	3,869,852
2022	46,869,929	21,071,640	634,257	28,859	8,174,026	3,511,836
2023-2027	241,773,848	73,214,568	1,304,168	23,331	34,310,278	12,059,125
2028-2032	171,919,576	23,628,655	-	-	18,795,120	5,644,535
2033-2037	48,510,000	2,387,616	-	-	8,025,000	2,599,238
2038-2042	-	-	-	-	3,740,000	1,465,744
2043-2047	-	-	-	-	4,560,000	549,925
Totals	<u>\$ 710,892,185</u>	<u>\$ 224,244,653</u>	<u>\$ 7,428,716</u>	<u>\$ 341,676</u>	<u>\$ 132,469,311</u>	<u>\$ 45,317,870</u>

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

Capital leases were used to acquire equipment and vehicles. The lessor holds title to the equipment and vehicles until the lease is paid. The interest rate on the leases ranged from 1.0 percent to 4.6 percent. The requirements on capital leases of the City as of September 30, 2017, including interest payments totaling \$1,903,172, are as follows:

Fiscal Year	Governmental Capital Lease Minimum Payment	Business-type Capital Lease Minimum Payment	Total Capital Lease Minimum Payment
2018	3,519,429	3,603,944	7,123,373
2019	3,519,429	3,603,944	7,123,373
2020	2,437,797	2,205,493	4,643,290
2021	2,189,305	2,082,052	4,271,357
2022	1,763,836	1,769,599	3,533,435
2023-2027	3,253,276	1,890,941	5,144,217
Less Interest	(1,068,524)	(834,648)	(1,903,172)
Total	<u>\$ 15,614,548</u>	<u>\$ 14,321,325</u>	<u>\$ 29,935,873</u>

The carrying values on the leased assets of the City as of September 30, 2017 are as follows:

	Gross Value	Accumulated Depreciation	Net Book Value
Governmental Activities	\$ 34,272,391	\$ 10,767,425	\$ 23,504,966
Business-Type Activities	46,132,079	14,063,871	32,068,208
Total Leased Assets	<u>\$ 80,404,470</u>	<u>\$ 24,831,296</u>	<u>\$ 55,573,174</u>

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

Long-term obligations for governmental and business-type activities for the year ended September 30, 2017 are as follows:

	Debt Payable 09/30/16	Additions	Deletions	Debt Payable 09/30/17	Due in one year
Governmental activities:					
Tax-Supported -					
Obligation Bonds	\$ 333,499,954	\$ 34,061,284	\$ 38,587,139	\$ 328,974,099	\$ 29,643,354
Bond Premiums	32,013,843	2,560,232	4,508,004	30,066,071	-
Capital Leases	25,549,907	-	9,935,359	15,614,548	3,214,068
Compensated Absences	28,774,738	11,686,881	10,552,038	29,909,581	9,960,343
Post-Employment Benefits	47,618,697	7,145,604	3,713,447	51,050,854	-
Net Pension Liability	160,648,258	53,983,916	45,309,667	169,322,507	-
Insurance Claims Payable	1,692,743	27,751,203	27,735,777	1,708,169	1,539,429
Total Governmental activities	\$ 629,798,140	\$ 137,189,120	\$ 140,341,431	\$ 626,645,829	\$ 44,357,194
Business-type activities:					
Self-Supported -					
Obligation Bonds	\$ 712,515,046	\$ 79,228,716	\$ 73,422,861	\$ 718,320,901	\$ 53,841,646
Revenue and Contract Bonds	128,835,809	17,760,000	14,126,498	132,469,311	15,009,034
Bond Premiums	67,087,636	6,157,526	10,630,452	62,614,710	-
Note Payable	2,500,000	-	1,250,000	1,250,000	1,250,000
Capital Leases	23,449,316	-	9,127,991	14,321,325	3,336,132
Closure/Post Closure	5,575,049	101,035	-	5,676,084	-
Compensated Absences	6,320,328	3,864,684	3,838,583	6,346,429	4,522,928
Post-Employment Benefits	23,597,625	3,519,477	1,908,106	25,208,996	-
Net Pension Liability	48,434,087	16,600,662	16,308,167	48,726,582	-
Insurance Claims Payable	1,291,107	7,406,037	5,785,286	2,911,858	1,005,258
Total Business-type activities	\$ 1,019,606,003	\$ 134,638,137	\$ 136,397,944	\$ 1,017,846,196	\$ 78,964,998

Payments on bonds payable for governmental activities are made in the Debt Service Fund. Bonded debt is subject to the applicability of federal arbitrage regulations. In FY 2017, the City did not have any outstanding federal arbitrage. Accrued compensated absences that pertain to governmental activities will be liquidated by the General Fund and Special Revenue Funds. The Risk Management Internal Service Fund will liquidate insurance claims payable that pertain to governmental activities. Payments for the capital leases that pertain to the governmental activities will be liquidated by the General Fund and Special Revenue Funds.

The General Fund will liquidate the other postemployment benefit obligation that pertains to governmental activities. The net pension liability that pertains to the governmental activities will be liquidated mainly by the General Fund.

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

The total long-term debt is reconciled to the total annual requirements to amortize long-term debt as follows:

Long-Term Debt - Governmental Activities	\$ 626,645,829	
Long-Term Debt - Business-Type Activities	1,017,846,196	
Interest	368,399,094	
Total Amount of Debt		\$ 2,012,891,119
Less: Bond Discounts/Premiums	(92,680,781)	
Less: Capital Leases	(29,935,873)	
Less: Notes Payable	(1,250,000)	
Less: Closure/Post Closure	(5,676,084)	
Less: Compensated Absences	(36,256,010)	
Less: Post Employment Benefits	(76,259,850)	
Less: Net Pension Liability	(218,049,089)	
Less: Insurance Claims Payable	(4,620,027)	
Total Other Debt		(464,727,714)
Total Future Bonded Debt Requirements		\$ 1,548,163,405

**New Bond
Issuance**

In February 2017, the City issued \$35,000,000 Tax and Waterworks System Surplus Revenue Certificates of Obligation, Series 2017 (Certificates), with an interest rate of 0 percent. The Certificates were issued at par. The \$35,000,000 proceeds from the sale of the Certificates will be used for the purpose of paying i) construction, improvements, renovations, relocations and extensions to the City's storm water facilities and infrastructure, including the Northwest Lubbock Drainage Improvements Project (the "Project"); and (ii) payment of professional services of attorneys, financial advisors, engineers and other professionals in connection with the Project and the issuance of the Certificates. The proceeds of the debt are recorded in the Stormwater's Capital Project Fund.

In April 2017, the City issued \$23,290,000 Tax and Waterworks System Surplus Revenue Certificates of Obligation, Series 2017A (Certificates), with interest rates ranging from 2.00 percent to 5.00 percent. The Certificates were issued at a premium of \$2,501,546 and incurred issuance cost of \$285,357. The \$25,791,546 proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations to be incurred for various public improvements and renovations including : (i) design, relocation, upgrading and replacement of public utility infrastructure and construction of gateways and green spaces in the Central Business District; (ii) renovations, improvements and extensions to City streets, including sidewalks, street lighting, traffic signals/controllers and traffic signal communication systems, signage, landscaping, utility improvements, extensions, relocations and acquisition of land, rights-of-way and equipment in connection therewith; (iii) improvements, renovations, replacements, relocations and extensions to the City's Wastewater System; (iv) improvements, renovations, replacements, relocations and extensions to the City's Waterworks System; and (v) payment of professional services of attorneys, financial advisors, engineers and other professionals in connection with the Project and the issuance of the Certificates. The proceeds of the debt are recorded in the various Capital Projects Funds.

In August 2017, the City issued \$17,760,000 Electric Light and Power System Revenue Bonds, Series 2017 (Bonds), with interest rates from 4.00 percent to 5.00 percent. The Bonds were issued at a premium of \$2,083,590 and incurred issuance costs of \$256,181. \$19,843,590 of the proceeds of the sale of the Bonds will be used for the purpose of paying contractual obligations to be incurred for the purposes of: (i) paying the costs of acquiring, purchasing, constructing, improving, renovating, enlarging, and/or equipping property, buildings, structures, facilities, and/or related infrastructure for the System, (ii) funding capitalized interest, (iii) funding the reserve fund requirement for the Bonds, and (iv) paying the costs of issuing the Bonds.

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

Advance Refunding

In November 2016, the City issued \$36,780,000 General Obligation Refunding Bonds, Series 2016A (Bonds), with interest rates ranging from 3.125 percent to 5.00 percent. The Bonds were issued at a premium of \$4,132,622 and incurred issuance cost of \$375,746. The \$40,912,622 bond proceeds were used to refund a portion of the City's outstanding indebtedness for the purpose of achieving debt service savings. The net proceeds were deposited with the Escrow Agent in an amount necessary to accomplish, on their scheduled redemption date, the discharge and final payment on the Refunded Bonds. These funds will be held by the Escrow Agent in a special escrow fund and used to purchase direct obligations of the United States of America. Under the escrow agreements between the City and the Escrow Agent, the escrow funds are irrevocably pledged to the payment of principal and interest on the Refund Bonds. The bonds refunded \$39,640,000 of outstanding debt. As a result of the refunding, the City decreased total debt service requirements by \$6,680,610, which resulted in an accounting loss of \$1,454,451 and an economic gain of \$5,495,600, or a 13.86 percent savings on refunded bonds.

Prior year defeasance of debt. In prior years, the City defeased bonds by placing the proceeds of the new bonds in an irrevocable trust account to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the government's financial statements. At September 30, 2017, \$195,960,000 of defeased bonds remain outstanding.

L. CONDUIT DEBT

In the past, the City has approved the issuance of Health Facilities Development Corporation Bonds and Education Facilities Authority Bonds to provide financial assistance to private sector entities for the acquisition and construction of public facilities. The bonds are secured by the property financed. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. The City, nor the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of September 30, 2017, there was one series of Lubbock Health Facilities Development Corporation Bonds outstanding with an aggregate principal amount payable of \$70,580,000. The bonds were issued in 2008. Also as of September 30, 2017, there was one series of Lubbock Education Facilities Authority Inc. Bonds outstanding with an aggregate principal amount payable of \$21,340,000. The bonds were issued in 2007 and refunded in FY 2016.

M. SPECIAL ASSESSMENT DEBT

In FY 2008, the Vintage Township Public Facilities Corporation (PFC), a discretely presented component unit of the City, issued special assessment debt for the acquisition and construction of certain public facilities benefiting Vintage Township. The PFC had \$2,076,000 outstanding special assessment debt as of September 30, 2017. The City collects assessments and forwards the collections to the bondholders. The City is not obligated in any manner for special assessment debt and is not liable for repayment of the debt. As the PFC completes construction of certain public facilities, the assets are donated to the City. As of September 30, 2017, \$4,677,257 in completed construction costs was contributed to the City. The PFC has a deficit in unrestricted net position, which is a result of the debt held in the PFC name while the assets are donated to the City and held in the City's name.

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

N. FUND BALANCE

The City classified governmental fund balances as follows:

	<u>General Fund</u>	<u>Governmental Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balances				
Nonspendable:				
Inventory	\$ 119,300	\$ -	\$ -	\$ 119,300
Restricted:				
Debt Service	1,966,885	-	8,279,846	8,279,846
Economic and Business Development	-	-	49,396	49,396
Tourism, Convention Centers, Arts	-	-	509,645	509,645
Animal Assistance	-	-	369,037	369,037
Tax Improvement Financing Areas	-	-	4,084,356	4,084,356
Public Improvement Districts	-	-	1,459,097	1,459,097
Cable Services to Public Buildings	-	-	2,774,772	2,774,772
Community Services Grants	-	-	135,922	135,922
Health Grants	-	-	41,754	41,754
Police Grants	-	-	65,400	65,400
Cultural and Recreation Grants	-	-	14,585	14,585
Law Enforcement Purposes	-	-	769,819	769,819
Court Technology	-	-	564,939	564,939
Donations for Community Services	-	-	51,874	51,874
Donations for Animal Services	-	-	67,366	67,366
Donations for Museums	-	-	177,124	177,124
Donations for Parks and Recreational	-	-	114,940	114,940
Donations for Fire Services	-	-	6,702	6,702
Donations for Police Services	-	-	6,105	6,105
Donations for Cultural	-	-	26,731	26,731
Donations for Other Programs	-	-	818	818
Street Capital Projects	-	6,442,333	1,713,182	8,788,366
General Facility Capital Projects	-	651,113	-	651,113
Public Safety Capital Projects	-	57,601,225	-	58,949,740
Parks Capital Projects	-	994,973	-	994,973
TIF Capital Projects	-	-	7,776,378	8,116,927
Committed:				
Gateway Street Capital Projects	-	-	10,803,868	10,803,868
Infrastructure and neighborhood dev	-	-	690,321	690,321
Street Capital Projects	-	6,818,877	-	4,837,511
Unassigned	37,543,346	-	(621,125)	38,548,557
Total Fund Balances	\$ 39,629,531	\$ 72,508,521	\$ 39,932,852	\$ 152,070,904

The restricted special revenue fund balances are also restricted for GWFS net position.

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

O. RISK MANAGEMENT

The Risk Management Fund was established to account for liability claims, workers' compensation claims, and premiums for property/casualty insurance coverage. The Risk Management Fund generates its revenue through charges to other departments, which are based on costs.

In April 1999, the City purchased workers' compensation coverage, with no deductible, from Texas Municipal League Intergovernmental Risk Pool (TML-IRP) with continuous coverage through September 30, 2009. Effective October 1, 2009 the City purchased workers' compensation coverage from Texas Political Subdivisions Joint Self-Insurance Fund (TPS). TPS operates as a self-insurance pool offering coverage to municipalities and other political subdivisions in accordance with the local government code and the terms of interlocal agreements among members. The City obtains workers' compensation coverage through a guaranteed-cost plan. Guaranteed-cost members combine their contributions to cover pooled losses and expenses. As required by interlocal agreement, TPS obtains specific excess of loss coverage over and above the self-insured retention stated in the agreement so that members will not have joint and several liabilities beyond their required contribution. Prior to April 1999, the City was self-insured for workers' compensation claims. Any claims outstanding prior to April 1999 continue to be the City's responsibility.

The City's self-insurance liability program is funded on a cash flow basis, which means that the servicing contractor processes, adjusts, and pays claims from a deposit account provided by the City. The City accounts for the liability program by charging premiums to replenish funds based upon losses, administrative fees, premiums, and reserve requirements. In order to control the risks associated with liability claims, the City purchases excess liability coverage with an \$18 million annual aggregate limit and is subject to a \$500,000 self-insured retention per claim.

For self-insured coverage, the Risk Management Fund establishes claim liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported (IBNR). The length of time for which such costs must be estimated varies depending on the coverage involved. Because actual claim costs depend on complex factors such as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claim liabilities does not necessarily result in an exact amount, particularly for liability coverage. Claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. Adjustments to claim liabilities are charged or credited to an expense account in the period in which they are incurred.

Additionally, property and boiler coverage is accounted for in the Risk Management Fund. The property insurance policy was purchased from an outside insurance carrier. The policy has a \$250,000 deductible per occurrence, and the boiler coverage insurance deductible is up to \$500,000, dependent upon the unit. Premiums are charged to funds based upon estimated premiums for the upcoming year. Departments that sustain property damage in excess of \$10,000 are eligible to request assistance from the Risk Management Fund for payment of those damages up to the \$250,000 policy deductible.

Other small insurance policies, such as surety bond coverage and miscellaneous floaters, are also accounted for in the Risk Management Fund. Funds are charged based on premium amounts and administrative charges. Settlements in the current year and preceding two years have not exceeded insurance coverage. The City accounts for all insurance activity in the Internal Service Funds.

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

P. HEALTH INSURANCE

The City provides medical and dental insurance for all full-time employees and accounts for these activities in the Health Benefits Fund. Revenue for the health insurance program is generated from each cost center, based upon the number of active full-time employees. The City's plan is self-insured under an Administrative Services Only (ASO) Agreement. The City purchases excess coverage of \$350,000 per covered individual annually. Beginning on January 1, 2012, the City discontinued coverage that included an aggregate cap. The insurance vendor, based on medical trend, claims history, and utilization assists in the determination of the individual deductible. The actuarially determined calculation of the claim liability was \$1.69 million at September 30, 2017 for all health coverages including medical, prescription drugs, and dental.

The City also provides full-time employees basic term life insurance. The life insurance policy has a face value of \$10,000 per employee.

Full-time employees may elect to purchase medical insurance for eligible dependents at a reduced rate. The Health Fund paid for employee only dental coverage from January 1, 2013 through October 15, 2015 and then it resumed to being charged to departments. Employees may elect to purchase dental insurance for eligible dependents. Employees may also elect, at their cost, to participate in several voluntary insurance programs such as a cancer policy, voluntary life, and personal accident insurance.

The Risk Management and Health Benefits Funds established a liability for self-insurance for both reported and unreported insured events, which included estimates of future payments of losses and related claim adjustment expenses.

The following represents changes in those aggregate liabilities for these funds during the past two years ended September 30:

	<u>FY 2017</u>	<u>FY 2016</u>
Workers' Compensation and Liability Reserves at Beginning of Fiscal Year	\$ 1,291,107	\$ 2,141,031
Claims Expenses	7,406,037	3,883,199
Claims Payments	<u>(5,785,286)</u>	<u>(4,733,123)</u>
Workers' Compensation and Liability Reserves at End of Fiscal Year	<u>2,911,858</u>	<u>1,291,107</u>
Medical and Dental Claims Liability at Beginning of Fiscal Year	1,692,743	1,644,549
Claims Expenses	27,751,203	26,148,351
Claims Payments	<u>(27,735,777)</u>	<u>(26,100,157)</u>
Medical and Dental Claims Liability at End of Fiscal Year	<u>1,708,169</u>	<u>1,692,743</u>
Total Self-Insurance Liability at End of Fiscal Year	<u><u>\$ 4,620,027</u></u>	<u><u>\$ 2,983,850</u></u>
Total Assets to Pay Claims at End of Fiscal Year	<u><u>\$ 22,525,450</u></u>	<u><u>\$ 23,429,065</u></u>
Accrued Insurance Claims Payable - Current	\$ 2,544,687	\$ 2,102,155
Accrued Insurance Claims Payable - Noncurrent	<u>2,075,340</u>	<u>881,695</u>
Total Accrued Insurance Claims	<u><u>\$ 4,620,027</u></u>	<u><u>\$ 2,983,850</u></u>

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

Q. LANDFILL CLOSURE AND POSTCLOSURE CARE COST

State and federal laws and regulations require the City to place final covers on its landfill sites at closure and to perform certain maintenance and monitoring functions for 30 years thereafter. Although closure and post closure care costs will be paid only near or after the date that the landfills stop accepting waste, the City reports a portion of these closure and post closure costs as operating expenses (and recognizes a corresponding liability) in each period based on landfill capacity used as of each statement of net position date.

The \$5,676,084 included in landfill closure and post closure care liability at September 30, 2017, represents the cumulative amount expensed by the City to date for its two landfills, that are registered under TCEQ permit numbers 69 (Landfill 69) and 2252 (Landfill 2252), less amounts that have been paid. Approximately 96.2 percent of the estimated capacity of Landfill 69 has been used, with \$607,037 remaining to be recognized over the remaining closure period. Approximately 7.0 percent of the estimated capacity of Landfill 2252 has been used to date, with \$19,255,008 remaining to be recognized over the remaining closure period. Post closure care costs are based on prior estimates and have been adjusted for inflation. Actual costs may differ due to inflation, deflation, changes in technology, or other regulatory changes.

The City is required by state and federal laws and regulations to provide assurance that financial resources will be available for landfill closure, post closure care, and remediation or containment of environmental hazards. The City is in compliance with these requirements and has chosen the Local Government Financial Test mechanism for providing assurance. The City expects to finance costs through normal operations.

R. DISAGGREGATION OF ACCOUNTS – FUND FINANCIAL STATEMENTS

	Accounts Receivable Summary				Balance at 09/30/17
	Court Fines	Property Damage	Paving	Misc.	
Governmental Funds:					
General Fund	\$ 2,856,697	\$ 433,133	\$ 221,417	\$ 29,154	\$ 4,224,105
Capital Projects	-	-	-	4,060	4,060
Nonmajor	-		-	-	-
Total	\$ 2,856,697	\$ 433,133	\$ 221,417	\$ 33,214	\$ 4,232,225

	Accounts Receivable Summary		
	General		Balance at
	Consumer	Misc.	09/30/17
Proprietary Funds:			
LP&L	\$ 35,393,704	\$ 827,832	\$ 36,221,536
Water	10,172,547	69,230	10,241,777
Wastewater	5,097,103	770	5,097,873
WTMPA	758,456	-	758,456
Storm Water	2,932,469	-	2,932,469

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

Allowance for Doubtful Accounts Summary

	Balance at 09/30/17
Governmental Funds:	
General Fund	\$ 2,967,734
Proprietary Funds:	
LP&L	2,283,881
Water	1,186,462
Wastewater	533,303
Storm Water	295,557
Nonmajor	367,126
Total	<u><u>\$ 7,634,063</u></u>

Accounts Payable Summary

	Vouchers	Accounts	Miscellaneous	Balance at 09/30/17
Governmental Funds:				
General Fund	\$ 1,068,315	\$ 3,197,978	\$ -	\$ 4,266,293
Govt. Capital Projects	1,841,442	129,393	316,421	2,287,256
Nonmajor	690,283	1,320,772	616,556	2,627,611
Proprietary Funds:				
LP&L	1,291,404	114,002	126,202	1,531,608
Water	4,579,201	1,996,105	1,947,739	8,523,045
Wastewater	2,248,336	839,008	5,488,304	8,575,648
WTMPA	-	15,453,177	-	15,453,177
Storm Water	4,148,505	65,624	437,971	4,652,100
Nonmajor	1,341,106	727,343	591,170	2,659,619
Internal Service	1,025,605	346,710	1,240,179	2,612,494
Total	<u><u>\$ 18,234,197</u></u>	<u><u>\$ 24,190,112</u></u>	<u><u>\$ 10,764,542</u></u>	<u><u>\$ 53,188,851</u></u>

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

S. DISAGGREGATION OF ACCOUNTS - GOVERNMENT-WIDE

		Net Receivables			
	Accounts	Interest	Taxes	Internal Service	Balance at
	Receivable	Receivable	Receivable	Receivables	09/30/17
Governmental					
Activities	\$ 576,727	\$ 144,514	\$ 13,955,421	\$ 16,391	\$ 14,693,053
Business-Type					
Activities	54,723,882	311,806	-	10,712	55,046,400
Total	<u>\$ 55,300,609</u>	<u>\$ 456,320</u>	<u>\$ 13,955,421</u>	<u>\$ 27,103</u>	<u>\$ 69,739,453</u>

		Accounts Payable		
	Accounts	Internal Service	Balance at	
	Payable	Payables	09/30/17	
Governmental				
Activities	\$ 9,181,160	\$ 1,610,452	\$ 10,791,612	
Business-Type				
Activities	41,395,197	1,002,042	42,397,239	
Total	<u>\$ 50,576,357</u>	<u>\$ 2,612,494</u>	<u>\$ 53,188,851</u>	

T. FUND CLOSURES

There were no fund closures this fiscal year.

NOTE IV. CONTINGENT LIABILITIES

A. FEDERAL GRANTS

In the normal course of operations, the City receives grant funds from state and federal agencies. The grant programs are subject to audits by agents of the granting authority to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of audits of grants is not believed to be significant.

B. LITIGATION

The City is involved in various legal proceedings related to alleged personal and property damages, breach of contract and civil rights cases, some of which involve claims against the City that exceed \$500,000. State law limits municipal liability for personal injury to \$250,000 per person/\$500,000 per occurrence and property damage to \$100,000 per claim for activities arising out of its governmental functions. This limit is not applicable to claims pertaining to the City's electric utility.

The City's insurance coverage, if available, contains a \$500,000 self-insured retention. As of September 30, 2017, the City has \$909,556 reserved on general liability claims, as determined by an actuarial calculation.

The following represents the significant litigation against the City at this time.

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

Coyote Lake Ranch, L.L.C v. City of Lubbock

The City purchased water rights on the Plaintiff's property and Plaintiff is suing for breach of contract asserting City has not paid for surface damages. However, the main issue pertains to whether the "accommodation doctrine" applies and whether the City must accommodate the surface owner as it drills and develops its water well field. The most recent ruling by the Texas Supreme Court confirmed the accommodation doctrine does apply to the City but the City is not prevented from performing any activities in developing the well field. The challenge for the City will be how to set up the well field based on the accommodation doctrine.

Lazaro Walck v. City of Lubbock

The Plaintiff is alleging an adverse personnel action was taken against him and is suing the City under the Whistleblower Statute. The City filed a Motion for Summary Judgment and a Plea to the Jurisdiction asserting that the Plaintiff could not sue the City since the Plaintiff filed two grievances and received all the relief he requested in each grievance. It was denied, and the City appealed. The Court of Appeals ruled that the Plaintiff could pursue damages as to one of the grievances but not the other. The City filed a Petition to Review with the Texas Supreme Court and they declined to hear the case. The City filed an Amended Motion for Summary Judgment and an Amended Plea to the Jurisdiction. It was granted in March 2017 and Plaintiff has appealed.

Racquel Davis v. City of Lubbock

The Plaintiff is alleging the City sold defective hay to her that resulted in the death of two of her horses and with one becoming very sick and continuing to suffer the effects from the defective hay. Under Texas law, if a governmental entity is performing a governmental function, they are not liable for property damage unless it is caused by the use of motor-driven equipment. The City filed a Plea to the Jurisdiction asserting the same, stating that the hay was the end result of the City's process of disposal of treated effluent. The court granted the City's plea and the Plaintiff has appealed the ruling.

Beck Steel, Inc. et al. v. City of Lubbock et al.

The Plaintiff is asserting that the City illegally charged storm water fees to residents as the City used the fees to pay for expenses not related to storm water and not allowed by state law. The City filed a Plea to the Jurisdiction regarding the Plaintiff's claim for recovery of the fees and it was denied by the court. Both parties filed Motions for Summary Judgment in August 2017. Oral arguments were heard by trial court in December 2017 and the trial court granted the City's First Amended Motion for Summary Judgment on January 11, 2018. Plaintiff has indicated they will appeal decision to the Court of Appeals.

Alexa Jarpe and Jeremy Leech v. City of Lubbock

The Plaintiffs were injured in an auto accident with a City police vehicle that was responding to an armed robbery and are claiming negligence for speeding and responding to an emergency without use of lights and siren.

Texas Tech University v. City of Lubbock

Plaintiff has claimed an overpayment of approximately \$3,900,000 was received by LP&L under a Power Purchase Agreement, but nothing has been filed yet. The City intends to vigorously defend itself in this action, both as to liability and damages, and will assert any and all applicable legal defenses, file the necessary dispositive motions, and try each case if necessary.

City of Lubbock, Texas
Notes to Basic Financial Statements
September 30, 2017

Jillian Standley v. City of Lubbock and Lubbock Power and Light

The Plaintiff was injured in an auto accident with a City vehicle/employee and is claiming damages as a result of the accident.

Paul Valderas v. Officer Billy Mitchell and City of Lubbock

This is a civil rights case in which the Plaintiff is alleging use of excessive force resulting in injury during his arrest.

Angel Aleman v. Officer Ross Quarles

This is a civil rights case in which the Plaintiff is alleging use of excessive force during his arrest.

C. SITE REMEDIATION

The City accounts for pollution remediation obligations in accordance with Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The City contracts with an engineering firm to perform the necessary remediation activities and cost estimates. Pollution remediation obligations are estimates and subject to changes resulting from price increases or reductions, technology, or changes in applicable laws or regulations.

As of September 30, 2017, the City owns one property with environmental issues that meet the criteria for “obligating events” and disclosure under GASB Statement No. 49. The LP&L Cook Plant issue resulted from underground storage tanks. This property meeting the criteria has been in existence for several years and is at the “remediation design and implementation, through and including operation and maintenance, and post remediation monitoring” benchmark discussed in GASB 49. In fact, the City has been monitoring and recording this obligation for at least ten years.

The City contracts with an engineering firm (eHT/Enprotec) to perform the necessary remediation activities. Enprotec works closely with the Texas Commission on Environmental Quality (TCEQ) on this property. The remediation activities the City is required to perform have been approved by TCEQ. The City has a set plan of action for this property that TCEQ requires the City to follow.

The Cooke plan also requires asbestos remediation in the amount of \$65,199. The City has an Asbestos Coordinator who works with consultants to address these properties as they arise.

As of September 30, 2017, the City recorded pollution remediation obligation in the LP&L enterprise fund as follows:

- LP&L Cooke Plant - \$307,467



City of Lubbock, Texas
Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios
Texas Municipal Retirement System

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability			
Service Cost	\$ 15,823,941	\$ 15,646,134	\$ 13,880,535
Interest (on the total pension liability)	43,569,660	43,381,064	41,941,717
Difference between expected and actual experience	(116,124)	(2,308,849)	(5,561,662)
Change of assumptions	-	1,083,512	-
Benefit payments, including refunds of employee contributions	(32,040,199)	(32,247,421)	(28,915,142)
Net Change in Total Pension Liability	<u>27,237,278</u>	<u>25,554,440</u>	<u>21,345,448</u>
Total Pension Liability - Beginning	<u>653,584,576</u>	<u>628,030,136</u>	<u>606,684,688</u>
Total Pension Liability - Ending (a)	<u><u>\$ 680,821,854</u></u>	<u><u>\$ 653,584,576</u></u>	<u><u>\$ 628,030,136</u></u>
Plan Fiduciary Net Position			
Contributions - Employer	\$ 16,727,368	\$ 17,455,926	\$ 16,809,722
Contributions - Employee	6,519,575	6,580,584	6,187,966
Net Investment Income	35,696,237	791,199	29,351,843
Benefit payments, including refunds of employee contributions	(32,040,199)	(32,247,421)	(28,915,142)
Administrative Expense	(403,223)	(481,936)	(306,464)
Other	(21,725)	(23,803)	(25,196)
Net Change in Plan Fiduciary Net Position	<u>26,478,033</u>	<u>(7,925,451)</u>	<u>23,102,729</u>
Plan Fiduciary Net Position - Beginning	<u>528,295,289</u>	<u>536,220,740</u>	<u>513,118,011</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 554,773,322</u></u>	<u><u>\$ 528,295,289</u></u>	<u><u>\$ 536,220,740</u></u>
City's Net Pension Liability - Ending (a) - (b)	<u><u>\$ 126,048,532</u></u>	<u><u>\$ 125,289,287</u></u>	<u><u>\$ 91,809,396</u></u>
Plan Fiduciary Net Position as a Percentage			
of Total Pension Liability	81.49%	80.83%	85.38%
Covered Payroll	93,136,791	93,914,371	88,287,852
City's Net Pension Liability as a Percentage			
of Covered Payroll	135.34%	133.41%	103.99%

NOTE: The City implemented GASB Statement No. 68 in FY 2015. Information in this table has been determined as of the measurement date (December 31) of the net pension liability and will ultimately contain information for ten years.

Changes in assumptions: In 2016, the discount rate was lowered from 7.0% to 6.75%; the inflation rate was lowered from 3% to 2.5%; the experience study for retirement age was updated.

City of Lubbock, Texas
Required Supplementary Information
Schedule of Contributions
Texas Municipal Retirement System

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially Determined Contribution	\$ 17,128,597	\$ 16,819,070	\$ 16,822,154
Contributions in relation to the actuarially determined contribution	17,128,597	16,819,070	16,822,154
Covered payroll	95,409,809	92,797,625	90,076,485
Contributions as a percentage of covered payroll	17.95%	18.12%	18.68%

Notes to Schedule of Contributions

Valuation Date:

Notes

Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 12 months and one day later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	29 years
Asset Valuation Method	10 Year smoothed market, 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information

Notes

There were no benefit changes during the year.

NOTE: The City implemented GASB Statement No. 68 in FY 2015. Information in this table has been determined as of the City's most recent fiscal year-end (September 30) and will ultimately contain information for ten years.

City of Lubbock, Texas
Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios
Lubbock Fire Pension Fund

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability			
Service Cost	\$ 6,133,418	\$ 5,897,517	\$ 5,670,689
Interest (on the total pension liability)	19,752,539	18,983,849	18,188,061
Difference between expected and actual experience	1,284,558	-	(1,634,184)
Change of assumptions	-	-	9,070,157
Benefit payments, including refunds of employee contributions	(15,782,381)	(14,614,970)	(13,429,152)
Net Change in Total Pension Liability	11,388,134	10,266,396	17,865,571
Total Pension Liability - Beginning	256,629,244	246,362,848	228,497,277
Total Pension Liability - Ending (a)	<u>\$ 268,017,378</u>	<u>\$ 256,629,244</u>	<u>\$ 246,362,848</u>
Plan Fiduciary Net Position			
Contributions - Employer	\$ 6,598,900	\$ 6,652,094	\$ 6,234,058
Contributions - Employee	3,774,706	3,716,202	3,424,188
Net Investment Income	7,668,252	(5,133,050)	991,921
Difference between expected and actual experience	-	-	-
Benefit payments, including refunds of employee contributions	(15,782,381)	(14,614,970)	(13,429,152)
Administrative Expense	(322,882)	(244,762)	(205,266)
Other	1,244,040	136,500	53,411
Net Change in Plan Fiduciary Net Position	3,180,635	(9,487,986)	(2,930,840)
Plan Fiduciary Net Position - Beginning	172,836,186	182,324,172	185,255,012
Plan Fiduciary Net Position - Ending (b)	<u>\$ 176,016,821</u>	<u>\$ 172,836,186</u>	<u>\$ 182,324,172</u>
City's Net Pension Liability - Ending (a) - (b)	<u>\$ 92,000,557</u>	<u>\$ 83,793,058</u>	<u>\$ 64,038,676</u>
Plan Fiduciary Net Position as a Percentage			
of Total Pension Liability	65.67%	67.35%	74.01%
Covered Payroll	30,367,707	29,897,052	27,547,772
City's Net Pension Liability as a Percentage			
of Covered Payroll	302.96%	280.27%	232.46%

NOTE: The City implemented GASB Statement No. 68 in FY 2015. Information in this table has been determined as of the measurement date (December 31) of the net pension liability and will ultimately contain information for ten years.

Changes in assumptions: In 2015, the discount rate was lowered from 8.0% to 7.75%.

City of Lubbock, Texas
Required Supplementary Information
Schedule of Contributions
Lubbock Fire Pension Fund (LFPF)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Determined Contribution	\$ 7,071,721	\$ 6,591,298	\$ 6,316,139
Contributions in relation to the contractually determined contribution	7,071,721	6,591,298	6,316,139
Covered payroll	32,554,784	30,141,037	28,277,981
Contributions as a percentage of covered payroll	21.72%	21.87%	22.34%

Notes to Schedule of Contributions

Valuation Date:

Notes Contractually determined contribution rates for 2017 were based on the contracted contribution rate.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	33.5 years
Asset Valuation Method	5 Year smoothed market, 20% market value corridor
Inflation	3.0%
Salary Increases	4.00% to 11.28% including inflation based on service at attained age
Investment Rate of Return	7.75%
Retirement Age	Experience-based table of rates that are specific to the LFPF plan of benefits.
Mortality	Employee and healthy annuitant combined rates from the RP2000 Mortality Table, projected to 2024 using Scale AA, with separate rates for males and females.

Other Information

Notes There were no benefit changes during the year.

NOTE: The City implemented GASB Statement No. 68 in FY 2015. Information in this table has been determined as of the City's most recent fiscal year-end (September 30) and will ultimately contain information for ten years.

City of Lubbock, Texas
Required Supplementary Information
Schedule of Funding Progress
For the Year Ended September 30, 2017

Other Postemployment Benefit Plan (OPEB)¹

Actuarial Valuation Date	Plan	Value of Assets (a)	Liability (AAL) (b)	AAL (UAAL) (b-a)	Ratio as a Percentage (a/b)	Covered Payroll (c)	of covered Payroll ((b-a)/c)
10/1/07	OPEB	-	81,918,738	81,918,738	-	88,185,412	92.9
10/1/09	OPEB	-	126,167,945	126,167,945	-	95,693,148	131.8
10/1/11	OPEB	-	154,305,935	154,305,935	-	108,102,087	142.7
10/1/13	OPEB	-	155,021,339	155,021,339	-	110,942,802	139.7
10/1/15	OPEB	-	120,877,439	120,877,439	-	122,938,662	98.3

¹Health/Dental Care Insurance Plan

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Amounts determined regarding the funded status and the annual required contributions of the City's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The detailed discussion of the actuarial assumptions used for the updated City of Lubbock Retiree Health Care Plan Actuarial Valuation Report as of October 1, 2015 can be obtained from the City.

City of Lubbock, Texas
Required Supplementary Information
Mandatory Budgetary Comparison Schedule
General Fund
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
REVENUES				
Taxes				
Property Tax	\$ 55,381,737	\$ 55,381,737	\$ 55,516,662	\$ 134,925
Delinquent Taxes	802,000	802,000	736,012	(65,988)
Sales Tax	63,833,276	63,833,276	64,549,831	716,555
Mixed Beverage Tax	1,275,000	1,275,000	1,334,638	59,638
Bingo Tax	280,000	280,000	269,307	(10,693)
Suddenlink	1,195,000	1,195,000	1,199,805	4,805
Excel	3,000	3,000	28,069	25,069
South Plains Electric Cooperative	540,000	540,000	718,915	178,915
Atmos	1,392,912	1,392,912	1,519,515	126,603
West Texas Gas Company	7,000	7,000	11,542	4,542
Telecom Right of Way	1,732,065	1,732,065	1,630,723	(101,342)
Development Services	233,550	233,550	208,327	(25,223)
General Government	92,521	92,521	167,645	75,124
City Secretary	316,360	316,360	328,947	12,587
Public Safety	925,408	925,407	814,679	(110,728)
Public Works	69,582	69,582	174,469	104,887
Health	50,473	50,473	57,809	7,336
Animal Shelter	127,000	127,000	135,114	8,114
Cultural/Recreational	1,084,818	1,123,818	1,003,264	(120,554)
Museum	278,350	278,350	256,994	(21,356)
Licenses and Permits	3,254,774	3,254,774	3,279,705	24,931
Intergovernmental	363,137	363,137	405,597	42,460
Fines and Forfeitures	3,227,000	3,227,000	2,716,495	(510,505)
Interest Earnings	-	-	344,933	344,933
Rental	10,700	10,700	5,738	(4,962)
Recoveries of Expenditures	986,170	986,170	813,673	(172,497)
Other	437,500	437,500	231,144	(206,356)
Transfers from Special Revenue Funds	149,860	149,860	149,860	-
Transfers from Electric Fund	9,621,062	9,621,062	10,074,623	453,561
Transfers from Water Fund	9,685,244	9,685,244	9,685,244	-
Transfers from Wastewater Fund	5,014,866	5,014,866	5,014,866	-
Transfers from Solid Waste	2,501,260	2,501,260	2,501,260	-
Transfers from Airport Fund	1,751,227	1,751,227	1,751,227	-
Transfers from Stormwater	2,628,757	2,628,757	2,628,757	-
Total Revenue	<u>\$ 169,251,609</u>	<u>\$ 169,290,608</u>	<u>\$ 170,265,389</u>	<u>\$ 974,781</u>
EXPENDITURES				
<u>Administrative Services</u>				
City Attorney	\$ 2,132,154	\$ 2,151,882	\$ 2,121,797	\$ 30,085
City Council	315,470	315,470	291,605	23,865
City Manager	1,092,458	1,101,629	1,235,860	(134,231)
City Secretary	1,242,117	1,252,214	1,198,690	53,524
Facilities Management	3,345,226	3,358,437	3,011,772	346,665
Finance	2,827,689	2,856,234	2,627,312	228,922
Human Resources	544,653	549,679	496,688	52,991
Internal Audit	392,733	397,535	221,288	176,247
Non-departmental	7,193,459	10,476,432	10,399,218	77,214
Public Information	507,992	512,645	505,200	7,445
Total Administrative Services	<u>19,593,951</u>	<u>22,972,157</u>	<u>22,109,430</u>	<u>862,727</u>

City of Lubbock, Texas
Required Supplementary Information
Mandatory Budgetary Comparison Schedule (Continued)
General Fund
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
EXPENDITURES (Continued)				
<u>Community Services*</u>				
Building Inspection	\$ 2,014,746	\$ 2,035,361	\$ 1,935,885	\$ 99,476
Planning	682,956	689,435	703,361	(13,926)
Total Community Services	<u>2,697,702</u>	<u>2,724,796</u>	<u>2,639,246</u>	<u>85,550</u>
<u>Cultural and Recreation Services</u>				
Library	3,700,160	3,726,394	3,747,346	(20,952)
Museums	1,047,999	1,055,229	1,011,593	43,636
Parks	10,600,550	10,816,630	10,231,318	585,312
Total Cultural and Recreation Services	<u>15,348,709</u>	<u>15,598,253</u>	<u>14,990,257</u>	<u>607,996</u>
<u>Public Works</u>				
Engineering	1,364,931	1,379,742	1,217,229	162,513
Streets	3,094,923	3,118,153	2,429,462	688,691
Traffic	3,682,283	3,710,501	3,363,994	346,507
Total Public Works	<u>8,142,137</u>	<u>8,208,396</u>	<u>7,010,685</u>	<u>1,197,711</u>
<u>Public Safety and Health Services</u>				
Animal Services	2,039,799	2,055,105	1,955,884	99,221
Codes and Environmental Health	2,735,948	2,756,635	2,668,271	88,364
Fire	47,313,780	47,932,425	48,137,647	(205,222)
Municipal Court	1,866,524	1,925,490	1,743,099	182,391
Police	61,586,009	62,239,561	60,992,588	1,246,973
Public Health	968,791	976,021	876,331	99,690
Vector Control	515,004	518,582	518,649	(67)
Total Public Safety and Health Services	<u>117,025,855</u>	<u>118,403,819</u>	<u>116,892,469</u>	<u>1,511,350</u>
Transfers	6,211,899	8,388,159	8,364,259	23,900
Payroll Accrual/Other Adjustments	1,472,270	-	-	-
Total Expenditures	<u>\$ 170,492,523</u>	<u>\$ 176,295,580</u>	<u>\$ 172,006,346</u>	<u>\$ 4,289,234</u>
Revenues less expenditures	<u>\$ (1,240,914)</u>	<u>\$ (7,004,972)</u>	<u>\$ (1,740,957)</u>	<u>\$ 5,264,015</u>

*Building Inspection is included in "Other public safety" and Planning is included in "Economic and business development" on the General Fund Statement of Revenues, Expenditures and Changes in Fund Balance.

City of Lubbock, Texas
Required Supplementary Information
Mandatory Budget Comparison Schedule (Continued)
General Fund
For the Year Ended September 30, 2017

Explanation of Differences between Budgetary Revenues and Expenditures to the General Fund Statement of Revenues, Expenditures and Changes in Fund Balances - Revenues, Expenditures, and Other Financing Sources (Uses)

Revenues and Other Financing Sources

Actual amounts (budgetary basis) "Total Revenue" from the Budget Comparison Schedule	\$170,265,389
--	---------------

Adjustments:

Proceeds from the issuance of debt are classified as other financing sources for GAAP reporting, but are not included in total revenue on the budget basis	<u>10,066,596</u>
--	-------------------

Total general fund revenues and other financing sources as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	<u>\$180,331,985</u>
---	----------------------

Expenditures and Other Financing Uses

Actual amounts (budgetary basis) "Total Expenditures" from the Budget Comparison Schedule	\$172,006,346
---	---------------

Adjustments:

Capital outlay that has or will be purchased from capital lease proceeds are classified as expenditures for GAAP reporting, but are not included in total expenditures on the budget basis	<u>4,369,634</u>
--	------------------

Total general fund expenditures and other financing uses as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	<u>\$176,375,980</u>
--	----------------------

APPENDIX C
FORM OF BOND COUNSEL OPINION

_____, 2018

We have acted as Bond Counsel for the City of Lubbock, Texas (the "City"), in connection with the issuance of its City of Lubbock, Texas General Obligation Refunding Bonds, Series 2018 (the "Bonds"), dated _____, 2018, in the aggregate principal amount of \$_____. The Bonds are issuable in fully registered form only, in denominations of \$5,000 or integral multiples thereof, bear interest, and may be transferred and exchanged as set out in the Bonds, in the ordinance adopted by the City Council of the City on March 22, 2018 (the "Bond Ordinance") authorizing the issuance of the Bonds, and in the pricing certificate dated as of _____, 2018 (the "Pricing Certificate" and, together with the Bond Ordinance, the "Ordinance").

We have acted as Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income under federal income tax law. In such capacity we have examined the Constitution and laws of the State of Texas; federal income tax law; and a transcript of certain certified proceedings pertaining to the issuance of the Bonds and the obligations that are being refunded (the "Refunded Obligations") with the proceeds of the Bonds, as described in the Ordinance. The transcript contains certified copies of certain proceedings of the City and The Bank of New York Mellon Trust Company, National Association (the "Escrow Agent"); the report (the "Report") of Grant Thornton LLP, Certified Public Accounts, which verifies the sufficiency of the deposit made with the Escrow Agent for the defeasance of the Refunded Obligations and the mathematical accuracy of certain computations of the yield on the Bonds and the obligations acquired with the proceeds of the Bonds; certain certifications and representations and other material facts within the knowledge and control of the City, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds and the firm banking and financial arrangements for the discharge and final payment of the Refunded Obligations. We have also examined executed Bond No. R-1 of this issue.

We have not been requested to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

Based on such examination, it is our opinion as follows:

- (1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; the

Bonds constitute valid and legally binding obligations of the City enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Bonds have been authorized and delivered in accordance with law;

- (2) The Bonds are payable, both as to principal and interest, from, and secured by, the proceeds of a continuing, direct, annual ad valorem tax, levied within the limits prescribed by law, against taxable property located within the City, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds; and
- (3) The escrow agreement between the City and the Escrow Agent (the "Escrow Agreement") has been duly executed and delivered and constitutes a binding and enforceable agreement in accordance with its terms; the establishment of the Escrow Fund pursuant to the Escrow Agreement and the deposit made therein constitute the making of firm banking and financial arrangements for the discharge and final payment of the Refunded Obligations; in reliance upon the accuracy of the calculations contained in the Report, the Refunded Obligations, having been discharged and paid, are no longer outstanding and the lien on and pledge of ad valorem taxes and other revenues as set forth in the ordinances authorizing their issuance will be appropriately and legally defeased; the holders of the Refunded Obligations may obtain payment of the principal of, redemption premium, if any, and interest on the Refunded Obligations only out of the funds provided therefor now held in escrow for that purpose by the Escrow Agent pursuant to the terms of the Escrow Agreement; and therefore the Refunded Obligations are deemed to be fully paid and no longer outstanding, except for the purpose of being paid from the funds provided therefor in such Escrow Agreement.

Also based on our examination as described above, it is our further opinion that, subject to the restrictions hereinafter described, interest on the Bonds, including any accrued "original issue discount" properly allocable to the holders of the Bonds, is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended ("Code"), and is not a specific item of tax preference for purposes of the federal alternative minimum tax. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

In providing the opinion set forth in the foregoing paragraph, we are assuming continuing compliance with the Covenants (as hereinafter defined) by the City. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the Bonds in order for interest on the Bonds to be and

remain excludable from gross income for purposes of federal income taxation. These requirements include, by way of example and not limitation, restrictions on the use, expenditure and investment of the proceeds of the Bonds and the use of the property financed by the Bonds, limitations on the source of the payment of and the security for the Bonds, and the obligation to rebate certain excess earnings on the gross proceeds of the Bonds to the United States Treasury. The Ordinance and the City's tax certificate for the Bonds (the "Tax Certificate") contain covenants (the "Covenants") under which the City has agreed to comply with such requirements. If the City fails to comply with the Covenants interest on the Bonds could become includable in gross income for federal income tax purposes retroactively to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Bonds from becoming includable in gross income for federal income tax purposes. We have no responsibility to monitor compliance with the Covenants after the date of issue of the Bonds.

Certain requirements and procedures contained, incorporated or referred to in the Ordinance and Tax Certificate, including the Covenants, may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.