

OFFICIAL STATEMENT DATED OCTOBER 8, 2019



RATINGS: S&P Global Ratings Services "AA-"  
Fitch Ratings "AA-"  
See "RATINGS" herein

**NEW ISSUE: BOOK-ENTRY-ONLY**

Interest on the Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the amount, accrual, or receipt of interest on the Bonds.

**\$88,405,000**  
**CITY OF LUBBOCK, TEXAS**  
**WATER AND WASTEWATER SYSTEM**  
**REVENUE REFUNDING BONDS, TAXABLE SERIES 2019B**

**Dated: October 15, 2019**  
**(Interest accrues from the Delivery Date)**

**Due: February 15, as shown on page ii**

Principal of and interest on the \$88,405,000 City of Lubbock, Texas Water and Wastewater System Revenue Refunding Bonds, Taxable Series 2019B (the "Bonds") issued by the City of Lubbock, Texas (the "City") 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"). 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 (see "BOOK-ENTRY-ONLY SYSTEM" herein). Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. **No physical delivery of the Bonds will be made to the beneficial owners thereof.**

Principal of 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" herein). Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months, will accrue from the date of initial delivery (the "Delivery Date"), expected to be on or about October 30, 2019, and is payable on February 15, 2020, and on each August 15 and February 15 thereafter until maturity or prior redemption, to the registered owners (initially Cede & Co.) appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day of the month next preceding each interest payment date (the "Record Date") (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, Texas Government Code, as amended, and an ordinance adopted by the City Council on September 24, 2019 (the "Bond Ordinance"). In the Bond Ordinance, the City Council delegated to each of the Mayor, the City Manager, and the Chief Financial Officer the authority to effect the sale of the Bonds by the execution of a pricing certificate for the Bonds evidencing the final terms of the Bonds (the "Pricing Certificate") (see "THE BONDS – Authority for Issuance"). The Bond Ordinance and the Pricing Certificate are collectively referred to herein as the "Ordinance." The Bonds are special obligations of the City, payable, both as to principal and interest, solely from and secured by a first lien on and pledge of the Net Revenues of the City's Water and Wastewater System (the "System"). **The Bonds are not payable from monies raised or to be raised from taxation** (see "THE BONDS – Security and Source of Payment").

Proceeds from the sale of the Bonds will be used for the purposes of: (i) refunding certain outstanding obligations of the City (the "Refunded Obligations", see "SCHEDULE I – Schedule of Refunded Obligations") and (ii) paying the costs associated with the issuance of the Bonds and refunding the Refunded Obligations (see "THE BONDS – Purpose" and "SOURCES AND USES OF PROCEEDS").

*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 named below (the "Underwriters") by their counsel, McCall, Parkhurst & Horton L.L.P., Dallas, Texas. See "LEGAL MATTERS." Initial delivery of the Bonds through the facilities of DTC is expected to occur on or about October 30, 2019 (the "Delivery Date").*

**J.P. MORGAN**

**RAYMOND JAMES**

**STIFEL**

**UBS**

## MATURITY SCHEDULE

### \$88,405,000 Water and Wastewater System Revenue Refunding Bonds, Taxable Series 2019B

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Offering Yield<sup>(b)</sup></u>	<u>CUSIP Suffix<sup>(a)</sup></u>
2/15/2020	\$2,455,000	1.762%	1.762%	BS2
2/15/2021	1,340,000	1.812%	1.812%	BT0
2/15/2022	4,820,000	1.854%	1.854%	BU7
2/15/2023	5,890,000	1.876%	1.876%	BV5
2/15/2024	6,005,000	1.926%	1.926%	BW3
2/15/2025	6,130,000	2.059%	2.059%	BX1
2/15/2026	8,330,000	2.159%	2.159%	BY9
2/15/2027	8,520,000	2.237%	2.237%	BZ6
2/15/2028	8,710,000	2.337%	2.337%	CA0
2/15/2029	8,925,000	2.367%	2.367%	CB8
2/15/2030 <sup>(c)</sup>	9,145,000	2.467%	2.467%	CC6
2/15/2031 <sup>(c)</sup>	9,375,000	2.587%	2.587%	CD4
2/15/2032 <sup>(c)</sup>	3,910,000	2.687%	2.687%	CE2
2/15/2033 <sup>(c)</sup>	2,390,000	2.737%	2.737%	CF9
2/15/2034 <sup>(c)</sup>	2,460,000	2.787%	2.787%	CG7

(Interest accrues from Delivery Date)

- <sup>(a)</sup> 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 Bonds, is not intended to create a database and does not serve in any way as a substitute for the services provided by CGS. The City, the Financial Advisor, and the Underwriters are not responsible for the selection or correctness of the CUSIP numbers set forth herein.
- <sup>(b)</sup> The initial offering yields will be established by and are the sole responsibility of the Underwriters and may subsequently be changed.
- <sup>(c)</sup> The Bonds maturing on and after February 15, 2030 are subject to redemption, at the option of the City, on February 15, 2029 or any date thereafter, at par value thereof plus accrued interest to the date of redemption (see “THE BONDS – Redemption Provisions”).

**Concurrent Offering.**... The Bonds are being offered by the City concurrently with the City’s General Obligation Refunding Bonds, Taxable Series 2019A (the “GO Bonds”). The GO Bonds and the Bonds are not secured by a pledge of common security and the GO Bonds are being offered pursuant to a separate offering document. Such separate offering document should be reviewed and analyzed independently, including, without limitation, the types of obligations being offered, the terms for payment, the security for payments, the treatment of interest for federal income tax purposes, and the rights of the holders. Initial delivery of the GO Bonds is expected to occur through the facilities of DTC on or about October 30, 2019.

## USE OF INFORMATION IN OFFICIAL STATEMENT

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 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. 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. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS 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 THIS OFFERING. INVESTORS SHOULD READ THIS ENTIRE OFFICIAL STATEMENT, INCLUDING THE ATTACHED 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.

The City, the Financial Advisor, and the Underwriters make no 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.

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 <i>The cover page hereof, the section entitled “Official Statement Summary,” this Table of Contents, Schedule I and Appendices A, B, C and D 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 264,385 (see “DESCRIPTION OF THE CITY”).
- THE SYSTEM** ..... The City operates a combined Water and Wastewater System. The City currently receives its water supply from City-owned supplies and from the Canadian River Municipal Water Authority (“CRMWA”). The City has two surface water treatment plants. The City provides potable water service to over 88,834 meters. The distribution system consists of 1,780 miles of distribution lines, 14 pump stations, 25,941 valves, and 6,670 fire hydrants. The City also provides treated water to political subdivisions outside of the incorporated limits by contract. The daily capacity of the City’s water supply and treatment is 74 million gallons, with an average utilization of 35.13 million gallons per day. Wastewater collection and treatment is provided within the City limits to residential, commercial, and industrial customers. The collection system consists of 1,202 miles of sanitary sewer lines, 34 lift stations, and 17,747 manholes.
- THE BONDS** ..... The City’s \$88,405,000 Water and Wastewater System Revenue Refunding Bonds, Taxable Series 2019B (the “Bonds”) are dated October 15, 2019 and mature on February 15 in each of the years 2020 through 2034, inclusive. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months.
- PAYMENT OF INTEREST** ..... Interest on the Bonds accrues from the initial delivery date (the “Delivery Date”), and is payable February 15, 2020 and each August 15 and February 15 thereafter until maturity or prior redemption (see “THE BONDS – Description of the Bonds”).
- AUTHORITY FOR ISSUANCE** ..... The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1207, Texas Government Code, as amended, and an ordinance adopted by the City Council on September 24, 2019 (the “Bond Ordinance”). In the Bond Ordinance, the City Council delegated to each of the Mayor, the City Manager, and the Chief Financial Officer the authority to effect the sale of the Bonds by the execution of a pricing certificate for the Bonds evidencing the final terms of the Bonds (the “Pricing Certificate”) (see “THE BONDS – Authority for Issuance”). The Bond Ordinance and the Pricing Certificate are collectively referred to herein as the “Ordinance.”
- SECURITY FOR THE BONDS** ..... The Bonds are special obligations of the City, payable, both as to principal and interest, solely from, and together with certain outstanding revenue bonds of the City and any additional parity bonds which the City has reserved the right to issue in the future, secured by a first lien on and pledge of the Net Revenues of the City’s Water and Wastewater System (the “System”). **The Bonds are not payable from monies raised or to be raised from taxation** (see “THE BONDS – Security and Source of Payment”).
- REDEMPTION PROVISIONS** ..... The City reserves the right, at its option, to redeem the Bonds having stated maturities on and after February 15, 2030, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2029, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE BONDS – Redemption Provisions”).
- RATINGS** ..... The Bonds are rated “AA-” by S&P Global Ratings, a division of Standard and Poor’s Financial Services LLC and “AA-” by Fitch Ratings (see “RATINGS”).
- USE OF PROCEEDS** ..... Proceeds from the sale of the Bonds will be used for the purposes of: (i) refunding certain outstanding obligations of the City (the “Refunded Obligations”; see “SCHEDULE I – Schedule of Refunded Obligations”) and (ii) paying the costs associated with the issuance of the Bonds and refunding the Refunded Obligations (see “THE BONDS – Purpose” and “SOURCES AND USES OF PROCEEDS”).

- TAX MATTERS** .....Interest on the Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel expresses no opinion regarding any other tax consequences relating 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 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”).
- PAYMENT RECORD**.....The City has never defaulted in payment of its debt.
- LEGAL OPINION**.....The 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 is expected to occur through the facilities of DTC on or about October 30, 2019.
- CONCURRENT OFFERING**.....The Bonds are being offered by the City concurrently with the City’s General Obligation Refunding Bonds, Taxable Series 2019A (the “GO Bonds”). The GO Bonds and the Bonds are not secured by a pledge of common security and the GO Bonds are being offered pursuant to a separate offering document. Such separate offering document should be reviewed and analyzed independently, including, without limitation, the types of obligations being offered, the terms for payment, the security for payments, the treatment of interest for federal income tax purposes, and the rights of the holders. Initial delivery of the GO Bonds is expected to occur through the facilities of DTC on or about October 30, 2019.

For additional information regarding the City, please contact:

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 Fax (214) 989-1650

**CITY OFFICIALS, STAFF AND CONSULTANTS**

**ELECTED OFFICIALS OF THE CITY**

<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 2020	Business Owner
Jeff Griffith	Mayor Pro Tem, District 3	June 2014	May 2022	Business Owner
Juan Chadis	Council Member, District 1	June 2016	May 2020	Retired
Shelia Patterson Harris	Council Member, District 2	June 2016	May 2020	Retired
Steve Massengale	Council Member, District 4	May 2016	May 2020	Business Owner
Randy Christian	Council Member, District 5	May 2018	May 2022	Marketing Professional
Latrell Joy	Council Member, District 6	May 2012	May 2020	Attorney

**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	24
Blu Kostelich	Chief Financial Officer	July 2017	July 2017	3
Cheryl Brock	Exec. Dir. of Budget	March 2012	April 1992	27
Bill Howerton	Deputy City Manager	June 2014	August 1998	19
Mark Yearwood	Assistant City Manager	September 2006	July 1993	28
Jesica McEachern	Assistant City Manger	June 2018	June 2018	10
Brooke Witcher	Assistant City Manager	January 2019	January 2003	16
Wood Franklin	Public Works Director	February 2015	August 1999	20
Aubrey Spear	Water Utilities Director	June 2007	June 2007	11
Chad Weaver	City Attorney	May 2014	June 2008	25
Rebecca Garza	City Secretary	January 2001	August 1996	25

**CONSULTANTS AND ADVISORS**

Auditors .....	Weaver and Tidwell, L.L.P. Dallas, Texas
Bond Counsel.....	Orrick, Herrington & Sutcliffe LLP Austin, Texas
Financial Advisor.....	RBC Capital Markets, LLC Dallas, Texas

**OFFICIAL STATEMENT  
RELATING TO  
  
\$88,405,000  
CITY OF LUBBOCK, TEXAS  
WATER AND WASTEWATER SYSTEM  
REVENUE REFUNDING BONDS, TAXABLE SERIES 2019B**

**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 \$88,405,000 Water and Wastewater System Revenue Refunding Bonds, Taxable Series 2019B (the “Bonds”). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance authorizing the issuance of the Bonds adopted by the City Council on September 24, 2019 (the “Bond Ordinance”), except as otherwise indicated herein (see “APPENDIX C – EXCERPTS OF SELECTED PROVISIONS OF THE BOND ORDINANCE”).

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 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 or the System. 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 DISCLAIMER”).

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 offering document.

There follows in this Official Statement descriptions of the Bonds, the Water and Wastewater System of the City (the “System”) 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 264,385. The City covers approximately 129.0 square miles.

**THE BONDS**

**Description of the Bonds**

The Bonds are dated October 15, 2019 and shall mature on February 15 in each of the years and in the amounts shown on page ii hereto. Interest on the Bonds accrues from their Delivery Date (expected to be on or about October 30, 2019) and will be payable on February 15, 2020, and on each August 15 and February 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.

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”) 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”).

**Purpose**

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 (see “SOURCES AND USES OF PROCEEDS”).

## 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 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 certain governmental obligations permitted by the ordinances authorizing the issuance of the Refunded Obligations which are to be acquired and held in the Escrow Fund under the Escrow Agreement (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.

Robert Thomas CPA, LLC, a firm of independent certified public accountants, (the “Verification Agent”) will verify at the time of delivery of the Bonds to the Underwriters the mathematical accuracy of the schedules prepared by the City’s financial advisors (see “VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS”). 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 the Verification Agent, 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.

## Authority for Issuance

The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapters 1207 and 1502, Texas Government Code, as amended, and the Bond Ordinance. In the Bond Ordinance, the City Council delegated to each of the Mayor, the City Manager and the Chief Financial Officer of the City (each, an “Authorized Officer”) the authority to effect the sale of the Bonds by the execution of a pricing certificate evidencing the final terms of the Bonds (the “Pricing Certificate”). The Bond Ordinance and the Pricing Certificate are referred to herein as the “Ordinance”.

## Security and Source of Payment

The Bonds are special obligations of the City payable solely from and, together with certain outstanding revenue bonds of the City (the “Previously Issued Bonds”) and any additional parity bonds which may be issued in the future (“Additional Bonds” and, together with the Bonds and the Previously Issued Bonds, “Parity Bonds”), secured by a first lien on and pledge of the Net Revenues of the System after the payment of maintenance and operating expenses (see “APPENDIX C – EXCERPTS OF SELECTED PROVISIONS OF THE BOND ORDINANCE – Pledge of Security”). The City has also reserved the right to issue or incur other obligations on a parity with the Parity Bonds, including obligations issued or incurred under the terms of a Credit Facility (“Parity Obligations”), subject to the determination that the City will have sufficient Net Revenues to satisfy the annual debt service requirements of the System and the financial obligations of the City relating to the System after giving effect to the treatment of the Credit Facility as a Parity Obligation.

Maintenance and operating expenses include contractual payments to the extent permitted by law and so characterized on any such contract, which under Texas law are established as operating expenses of the System. The City’s payment obligations under such contracts constitute operating expenses of the System (see “THE SYSTEM”). The City also receives from the System annual payments in lieu of taxes (“PILOT”) and franchise fees. The payment of the PILOT and the franchise fees are treated as operating expenses of the System, payable prior to the payment of debt service on Parity Obligations, including the Bonds.

The Bonds are not a charge upon any other income or revenues of the City and **shall never constitute an indebtedness or pledge of the general credit or taxing powers of the City**. The Bonds are not payable from funds raised or to be raised from taxation. The Ordinance does not create a lien or mortgage on the capital assets of the System, except the Net Revenues, and any judgment against the City may not be enforced by levy and execution against any property owned by the City.

## Pledged Revenues

All of the Net Revenues of the System with the exception of those in excess of the amounts required to establish and maintain the special funds created for the payment and security of the Parity Obligations are irrevocably pledged for the payment of the Parity Obligations and interest thereon. The Parity Obligations are equally and ratably secured by a first lien upon the Net Revenues of the System (see “APPENDIX C – EXCERPTS OF SELECTED PROVISIONS OF THE BOND ORDINANCE – Pledge of Security”).

## **Rates**

The City has covenanted in the Ordinance that it shall, at all times while any of the Parity Bonds are outstanding and unpaid, maintain rates and collect charges for the facilities and services afforded by the System which will provide revenues sufficient at all times to: (i) pay all maintenance, operation, debt service, depreciation, replacement and betterment charges of the System; (ii) pay the amounts required to be deposited to the Bond Fund to pay the principal of and interest on the Parity Bonds as the same becomes due and payable, to accumulate and maintain the reserve amount, if any, required to be deposited in the Reserve Fund, and to pay any other costs of Parity Bonds as the same becomes due and payable; (iii) produce Net Revenues each year in an amount reasonably estimated to be not less than 1.25 times the maximum annual debt service requirements of the Parity Bonds from time to time outstanding; and (iv) pay any other legally incurred indebtedness payable from the revenues of the System and/or secured by a lien on the System or the revenues thereof.

## **General Reserve Fund**

As additional security for the Parity Bonds (other than TWDB Bonds) designated as “Covered Parity Bonds,” including the Bonds, the City covenants and agrees in the Ordinance to accumulate and maintain Reserve Fund Obligations in the General Reserve Fund equal to not less than the lesser of (i) the maximum annual debt service (calculated on a Fiscal Year basis) for all Outstanding Covered Parity Bonds, as determined on the date of issuance of each series or installment of Additional Bonds issued as Covered Parity Bonds, and annually following each principal payment date or redemption date for the Covered Parity Bonds, as the case may be, or (ii) the maximum amount in a reasonably required reserve fund that can be invested without restriction as to yield pursuant to Subsection (d) of section 148 of the Code and regulations promulgated thereunder. The General Reserve Fund shall be made available for and reasonably employed to pay principal of and interest on Covered Parity Bonds in the event that amounts in the Bond Fund are insufficient for such purpose. If any amount of the General Reserve Fund is employed to pay principal of or interest on Covered Parity Bonds and, after disbursement of such amounts for such purpose, the amount on deposit in the General Reserve Fund is less than the General Reserve Fund Requirement, or if an event of default under any Credit Facility held in the General Reserve Fund has occurred and is continuing, the General Reserve Fund Requirement shall be restored from Net Revenues in twenty-four (24) approximately equal monthly payments from the first available Net Revenues in the System Fund, subject only to (and in accordance with) the priority of payments prescribed in the Ordinance.

Notwithstanding anything to the contrary contained in the Ordinance, the requirement set forth above to maintain the General Reserve Fund shall be suspended for such time as the Net Revenues for each Fiscal Year are equal to at least 1.25 times the maximum annual debt service requirements of all Outstanding Parity Bonds. In the event that the Net Revenues for any Fiscal Year are less than 1.25 times the maximum annual debt service requirements of all Outstanding Parity Bonds, the City will be required to commence making deposits to the General Reserve Fund, as provided in the Ordinance, and to continue such deposits until the earlier of (i) such time as the General Reserve Fund contains the General Reserve Fund Requirement or (ii) the end of any period of two consecutive Fiscal Years during which Net Revenues were equal to not less than 1.25 times the maximum annual debt service requirements of all Outstanding Parity Bonds.

Following the issuance of the Bonds, Net Revenues for the fiscal year ending September 30, 2019, are projected to exceed 1.25 times the maximum annual debt service requirements for all Outstanding Parity Bonds. Accordingly, the requirement to maintain the General Reserve Fund will be suspended for such time as the Net Revenues for each Fiscal Year are equal to at least 1.25 times the maximum annual debt service requirements for all Outstanding Parity Bonds.

The City maintains a separate reserve fund (the “TWDB Reserve Fund”) for Parity Bonds owned by the Texas Water Development Board (the “TWDB Bonds”) as described in APPENDIX C. The Bonds are not TWDB Bonds and are not secured by the TWDB Reserve Fund. The TWDB Reserve Fund will be funded in an amount equal to the TWDB Reserve Requirement, which shall be calculated and predetermined at the time of issuance of each series or installment of TWDB Bonds. As of the date of this Official Statement, there is one series of TWDB Bonds outstanding that has a reserve requirement and the TWDB Reserve Fund Requirement for the TWDB Bonds is, as of the date of this Official Statement \$1,075,951. The TWDB Reserve Fund Requirement for the TWDB Bonds is being funded from Net Revenues of the System in equal monthly installments, over sixty (60) months, beginning in April 2019.

See “APPENDIX C – EXCERPTS OF SELECTED PROVISIONS OF THE BOND ORDINANCE – General Reserve Fund” and “- TWDB Reserve Fund.”

## **Redemption Provisions**

The City reserves the right, at its option, to redeem the Bonds having stated maturities on and after February 15, 2030, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof within a stated maturity, on February 15, 2029, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

If less than all of the Bonds are to be redeemed, the City may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the City shall determine the maturity or maturities and the amounts thereof to be redeemed and shall direct the Paying Agent/Registrar to call by lot or other customary method that results in a random selection, the Bonds, or portions thereof, within such maturity or maturities to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, Bonds (or the principal amount thereof to be

redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

### **Notice of Redemption**

Not less than 30 days prior to a redemption date for any Bond, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the Business Day next preceding the date of mailing such notice.

The City reserves the right, in the case of an optional redemption, to give notice of its election or direction to redeem Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the City retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the City delivers a certificate of the City to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners in the manner described above for causing notice of redemption to be provided. Any Bonds subject to conditional redemption and such redemption having been rescinded shall remain outstanding, and the rescission of such redemption shall not constitute an event of default under the terms of the Ordinance. Further, in the case of a conditional redemption, the failure of the City to make moneys and/or authorized securities available, in part or in whole, on or before the redemption date shall not constitute an event of default.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND NOT HAVING BEEN RESCINDED, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BONDS OR PORTION THEREOF HAVE NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BONDS OR PORTION THEREOF SHALL CEASE TO ACCRUE.

### **Amendments**

The holders of the Parity Bonds aggregating a majority in principal amount of then outstanding Parity Bonds shall have the right from time to time to approve any amendment to the Ordinance which may be deemed necessary or desirable by the City; provided, however, that without the consent of the holders of all of the Parity Bonds at the time outstanding, nothing in the Ordinance shall permit or be construed to permit the amendment of the terms and conditions in the Ordinance so as to: (i) make any change in the maturity of the outstanding Bonds; (ii) reduce the rate of interest borne by any of the outstanding Bonds; (iii) reduce the amount of the principal payable on the outstanding Bonds; (iv) modify the terms of payment of principal of or interest on the outstanding Bonds or impose any conditions with respect to such payment; (v) affect the rights of the holders of less than all of the Bonds then outstanding; or (vi) change the minimum percentage of the principal amount of Bonds necessary for consent to such amendment.

The City may, without the consent of or notice to any owners, amend the Ordinance to (i) add to the covenants and agreements of the City, grant additional rights or remedies to owners or to surrender, restrict or limit any right or power reserved to or conferred upon the City; (ii) to clarify matters or questions arising under the Ordinance or for the purpose of curing any ambiguity, or curing, correcting or supplementing any defective provision contained in the Ordinance (iii) to modify any of the provisions of the Ordinance in any other respect whatsoever, provided that such modification shall be, and be expressed to be, effective only after all previously issued Parity Bonds outstanding at the date of the adoption of such modification shall cease to be outstanding; and (iv) to make such amendments to the Ordinance as may be required, in the opinion of Bond Counsel, to ensure compliance with certain provisions of the Internal Revenue Code and the regulations promulgated thereunder and applicable thereto.

(See “APPENDIX C – EXCERPTS OF SELECTED PROVISIONS OF THE BOND ORDINANCE – Amendment of Ordinance”.)

### **Defeasance**

The Ordinance provides for the defeasance, discharge or refunding of the Bonds 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) by 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 or (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 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.

### **Issuance of Additional Bonds**

In the Ordinance, the City has reserved the right to issue Additional Bonds which may be secured on a parity with the pledge of the Net Revenues that secures the payment of the Bonds and the Previously Issued Bonds. Such Additional Bonds may be issued under certain conditions, including that the Chief Financial Officer of the City shall provide a certificate to the effect that, according to the books and records of the City, the Net Revenues of the System were, during the last completed Fiscal Year, or during any consecutive twelve (12) months period of the last fifteen (15) consecutive months next preceding the date of delivery of the Additional Bonds, equal to at least 1.25 times the maximum annual debt service requirements of the Parity Bonds which will be outstanding upon the issuance of the Additional Bonds. See “APPENDIX C – EXCERPTS OF SELECTED PROVISIONS OF THE BONDS ORDINANCE – Issuance of Additional Bonds” for complete terms and conditions to be satisfied for the issuance of Additional Bonds. The Bonds constitute Additional Bonds, and the City must meet the conditions set forth above.

### **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, payment of 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. So long as the Bonds are held in the book-entry-only system of DTC, the sole registered owner of the Bonds will be Cede & Co. (DTC’s partnership nominee) or such other nominee of DTC.



## **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 Offering**

The Bonds are being offered by the City concurrently with the City’s General Obligation Refunding Bonds, Taxable Series 2019A (the “GO Bonds”). The GO Bonds and the Bonds are not secured by a pledge of common security and the GO Bonds are being offered pursuant to a separate offering document. Such separate offering document should be reviewed and analyzed independently, including, without limitation, the types of obligations being offered, the terms for payment, the security for payments, the treatment of interest for federal income tax purposes, and the rights of the holders. Initial delivery of the GO Bonds is expected to occur through the facilities of DTC on or about October 30, 2019

## **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 DTC, 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 and the Underwriters cannot and do 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](http://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 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 the 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 Ordinance provides that any owner is entitled to seek a writ of mandamus from a court of proper 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 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) (“*Wasson P*”), that governmental immunity does not imbue a city with derivative immunity when it performs a proprietary, as opposed to a governmental, function in respect to contracts executed by a city. On October 5, 2018, the Texas Supreme Court issued a second opinion to clarify *Wasson I*, *Wasson Interests Ltd. v. City of Jacksonville*, 559 S.W.3d 142 (Tex. 2018) (“*Wasson IP*”, and together with *Wasson I* “*Wasson*”), ruling that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function at the time it entered into the contract, not at the time of the alleged breach. In *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is not clear. Therefore, in regard to municipal contract cases (as opposed to tort claim cases), it is incumbent on the courts to determine whether a function was governmental or proprietary based upon the statutory and common law guidance at the time of the contractual relationship. 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 authority or for the benefit of the State; these are usually activities that can be, and often are, provided by private persons, and therefore are not done as a branch of the State, and do not implicate the State’s immunity since they are not performed under the authority, or for the benefit, of the State as sovereign. Issues related to the applicability of a governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question.

As noted above, the Ordinance provides that holders of the 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). 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.

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 (such as the pledged Net Revenues), such provision is subject to judicial construction. 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 Bankruptcy Court. The opinion 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 will be applied as follows:

**Sources of Proceeds:**

Principal Amount of the Bonds.....	\$ 88,405,000.00
Total Sources of Proceeds.....	\$ 88,405,000.00

**Uses of Proceeds:**

Deposit to Escrow Fund.....	\$ 87,650,223.04
Underwriting Discount .....	435,503.11
Cost of Issuance.....	<u>319,273.85</u>
Total Uses of Proceeds .....	\$ 88,405,000.00

**THE SYSTEM**

**Water Utility**

The City’s most current Strategic Water Supply Plan was finalized in August 2018. 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 12.85 billion gallons of water in fiscal year 2018. The City’s 5-year average per capita consumption for the period ending at fiscal year-end in 2018 was 148 gallons per capita per day (“gpcd”). The daily capacity of the City’s water supply and treatment is 74 million gallons per day, with an average utilization of 35.1 million gallons per day.

The City currently receives its water from four different sources: Roberts County Well Field, Lake Meredith Reservoir, Bailey County Well Field, and Lake Alan Henry. The Roberts County Well Field and Lake Meredith Reservoir are owned by the Canadian River Municipal Water Authority (“CRMWA”). The Bailey County Well Field and Lake Alan Henry are owned by the City.

The City obtained 8.23 billion gallons of its annual water supply from CRMWA in FY 2018. 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 five years ago. It is now at 38.2% of its capacity. Since June of 2015, CRMWA has been using 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 25 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 currently securing easements for a new pipeline route so a second transmission line (“CRMWA II”) can be constructed from the well field to the aqueduct. This will allow for the full utilization of the aqueduct to the southern cities. The project is estimated to be completed sometime after 2030 when all of the member cities have a need for the additional water.

The Bailey County Well Field contains 175 active water wells with 83,305 acres of water rights, providing 2.45 billion gallons of the City’s annual water supply in FY 2018. In October 2011, the City completed the construction of eight additional wells to maintain the well field production rates. The City will add additional wells to the Bailey County Well Field as needed to restore some of the well field production capacity.

The City finished construction on Lake Alan Henry in 1993. In 2012, Phase I of the Lake Alan Henry infrastructure project was completed. This project consisted of constructing: 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 is capable of providing 11 million gallons of water per day to the City. Lake Alan Henry supplied 2.17 billion gallons of the City’s annual water supply in FY 2018. The lake is currently at greater than 88% 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 potable water service to over 88,834 meters through 1,780 miles of distribution lines, 14 pump stations, 25,941 valves, and 6,670 fire hydrants as of January 1, 2019. The City also provides treated wholesale water to the City of Shallowater, the Town of Ransom Canyon, Buffalo Springs Village, Reese Redevelopment Authority, Lubbock-Cooper ISD’s main campus, the Texas Department of Criminal Justice’s Montford Unit, and Texas Tech University East Petroleum Engineering Classroom facility. The City is under contract to provide potable water under emergency conditions to the cities of Littlefield and Wolfforth.

The Canadian River Municipal Water Authority. CRMWA is a political subdivision of the State of Texas, a conservation and reclamation district organized and functioning pursuant to Article 16, Section 59 of the Texas Constitution, under chapter 243, Acts of the 53<sup>rd</sup> Legislature Regular Session, 1953, as amended, formerly codified as article 8280-154 Vernon’s Annotated Texas Civil Statutes (the “Enabling Act”). CRMWA was created to provide a source of municipal and industrial water for its eleven member cities

(as defined below) located in the Texas Panhandle and South Plains. Under the Constitution and the Enabling Act, CRMWA has broad powers to effectuate flood control and the conservation and sue, for all beneficial purposes, of storm and floodwaters and unappropriated flow waters, to effectuate salinity control facilities within or without the State, and as a necessary aid to the purposes, specific authority to construct, own and operate water supply, treatment and distribution facilities.

CRMWA comprises all of the territory of its Member Cities: Amarillo, Brownfield, Borger, Lamesa, Levelland, Lubbock, O'Donnell, Pampa, Plainview, Slaton, and Tahoka (the "Member Cities"). CRMWA is governed by a 17 member Board of Directors. Each member city having a population of 10,000 or more is represented by two members on the Board of Directors of CRMWA. Members of the Board of Directors are appointed by the governing bodies of the respective Member Cities for two-year terms. CRMWA undertook to supply surface water to its Member Cities by developing its first projects, the "Canadian River Project", which includes Lake Meredith Reservoir.

The City currently has a water supply agreement with CRMWA (the "CRMWA Contract"). CRMWA has developed ground water resources in Roberts County which is permitted to yield 13 billion galls annually. City payments to CRMWA, under the CRMWA Contract, are operating expenses of the System and are paid prior to the City's Parity Bonds, including the Bonds. The payments to CRMWA are structured to include both a debt service component, which is used to pay a portion of the debt on CRMWA bonds, and a maintenance and operations component, which is used to pay a portion of CRMWA's maintenance and operating expenses. The term of each contract coincides with the final payment of the debt service component, and indefinitely thereafter, for payment on any maintenance and operating expenses associated with each project. When all debt payments are made, the City will own a vested interest in each project. CRMWA currently has debt obligations outstanding until 2031.

### **Wastewater Utility**

Wastewater collection and treatment is provided within the City limits to residential, commercial, and industrial customers. As of January 1, 2019, the collection system consisted of approximately 1,202 miles of sanitary sewer lines, 34 lift stations and 17,747 manholes. The Southeast Water Reclamation Plant ("SEWRP") has a permitted capacity of 31.5 million gallons per day and an average utilization of approximately 18.8 million gallons per day. The peak utilization of the SEWRP is 24 million gallons per day. The treated wastewater is disposed of or reused in various ways. In 2018, approximately 55 percent of the SEWRP 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 13 percent of the treated wastewater and 32 percent was discharged into the North Fork of the Double Mountain Fork (North Fork) of the Brazos River. Currently, dewatered solids generated during the wastewater treatment process are hauled and disposed of at the City's regional solid waste landfill in Abernathy, Texas. In April 2018, the new Northwest Water Reclamation Plant ("NWWRP") became operational. This new plant was constructed to handle the growing sewer demand in the northwest part of Lubbock. The NWWRP had an average utilization of 1 million gallons per day. The permitted capacity of the NWWRP is 3 million gallons per day. Effluent from this plant is discharged into the North Fork of the Brazos River. All solids from the NWWRP are sent to the SEWRP for processing.

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 has completed Phase I, Phase II, and Phase III of a four-phase project to upgrade the Southeast Water Reclamation Plant. Phase I included upgrades and improvements to the influent lift station. Phase II included 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 included new covers, new mixing system, new heating system, and gas piping to Digesters 8 and 9. Upgrades to the solids handling facility included new sludge thickening and dewatering equipment, sludge holding tank upgrades, odor control for the solids handling facility, and new sludge loading facilities. Phase IV will include upgrades to Plant 3 for biological removal. Design for rehabilitation of Plant 3 clarifiers and improved aeration capabilities has begun and 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 lines and manholes to improve aging infrastructure. The Northwest Water Reclamation Plant relieves the surcharge of sewer mains serving north Lubbock. An update to the Wastewater Master Plan has begun. This plan will evaluate the existing collection system and provide a new master plan for meeting the City's expected development and growth.

### **Capital Improvement Plan**

The following discussion contains forward looking information. No assurance can be given that any of the projects described below will be implemented or that the expected benefits of any such projects will be realized.

The City of Lubbock Water and Wastewater Utilities Department annually adopts a six-year capital improvement plan (the "CIP") for all its operations, and the current plan is summarized in Table 15 of "APPENDIX A – FINANCIAL INFORMATION REGARDING THE SYSTEM". The current CIP reflects expenditures for fiscal years 2019-20 through 2024-25 and includes annual expenditures that range in size from \$13.1 million to \$76.8 million per year. The Water and Wastewater Utilities Department anticipates that the level of cash funding for all capital projects for a 10-year period between fiscal years 2019-20 through fiscal years

2029-30 will be approximately 31 percent. The amount of cash funding averages roughly \$7.8 million per year for the next five years, which is greater than the previous five-year average of \$5.1 million per year.

The following are high level summaries of some of the significant projects included in the current CIP.

**Elevated Storage Tanks:** The CIP includes a significant investment in order to purchase land and build five 2-million gallon storage tanks to meet Texas Commission on Environmental Quality (“TCEQ”) requirements for the projected population. These storage tanks will also provide an opportunity to optimize pump efficiencies within the City in order to save on power costs and provide for pressure during power outages. These tanks will provide electrical savings opportunities for the City and lower the costs of operations and maintenance for pump stations by allowing the pump stations to run at optimal ranges.

**Water Treatment Plant Improvements:** 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 lines and manholes to improve aging infrastructure. The new Northwest Water Reclamation Plant relieves the surcharge of sewer mains serving north Lubbock. An update to the Wastewater Master Plan has begun. This plan will evaluate the existing collection system and provide a new master plan for meeting the City’s expected development and growth.

**Advanced Metering Infrastructure System (“AMI”):** AMI will play an important part in making the water utilities distribution system more efficient by improving billing accuracy, early identification of meter malfunctions, timely detection of leaks, reduction in water bill disputes, enhanced water system management, and reduction in meter reading costs. This project includes the installation of approximately 86,000 new and/or retrofitted water meters that will send data to the integrated communication network. The budget for this project reflects a water AMI implementation schedule that is separate from Lubbock Power and Light’s electric AMI implementation schedule. The deployment of the Water AMI system will take approximately two years.

**Annexation Water Lines for Fire Protection:** The Annexation and Growth committee of the City identified three areas which have been recently annexed into City limits. The annexation plan allows for two years and six months to have fire coverage through fire hydrants installed in the annexed areas. This project will provide the annexed areas in West, Northwest, and North Lubbock with fire hydrant coverage. These areas have been identified in the 2040 Comprehensive Plan as targeted areas to develop and will also bring the Lubbock Preston Smith International Airport within City limits.

A capital improvement plan is made 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. At present, the Water and Wastewater Utilities Department management is planning under the assumption that the listed capital improvements will be funded from a blend of operating revenues and bond proceeds.

## 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, 2018. The City will submit the City’s 2019 report, when available, 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, 2018”.

**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 152% of the target established by the City’s financial policies.

Water and Wastewater, Storm Water and Airport Enterprise Fund Balances . . . It is the policy of the City to maintain appropriate net position in the Water and Wastewater fund in an amount equal to 25% of operating revenues for unforeseen contingencies. The City’s goal of appropriate net position in the Airport and Storm Water funds is an amount equal to 15% of regular operating revenues. The City currently exceeds its policy on appropriate net position and unrestricted net position for its various enterprise funds. According to audited numbers for FY 2018, the target net position by policy and current appropriate net position for the Water and Wastewater, Storm Water, and Airport enterprise funds are as follows:

<u>Enterprise Fund</u>	<u>Target Net Position by Policy</u>	<u>Appropriate Net Position</u>
<b>Water and Wastewater</b>	\$33.6 million	\$63.23 million
<b>Storm Water</b>	\$4.0 million	\$10.9 million
<b>Airport</b>	\$1.7 million	\$10.1 million

To provide efficiency and cost savings in operations, the City combined its historic Waterworks System and Wastewater System into a combined Water and Wastewater utility system in fiscal year 2017/18. Reporting of the Water and Wastewater System is now done on a combined basis.

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 2018, 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>
<b>LP &amp; L</b>	\$58.0 million	\$79.6 million

Enterprise Fund Revenues . . . It is the policy of the City that each of the Electric, Water and 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 1990-2019.

On September 10, 2019, the City Council approved the budget and set the tax rate for the fiscal year ending September 30, 2020.

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 \$700,000 individual cap for 2018.

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, 2018, the audited total Net Position of these insurance funds was as follows:

Self-insurance – health: \$7,849,027

Self-insurance – risk management: \$7,492,920

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 2018, the actuarial review recommended that the liabilities of the Risk Fund be increase to \$3,797,943 from \$2,911,858 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 \$7,463,377. Given the net position balance, the City exceeds the minimum GASB 10 requirement. For FY 2018, the actuarial review also recommended that the reserve of the Health Fund be increase to \$2,085,864 from \$1,708,169 in FY 2017.

## **Administration**

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 Audit and Investment 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; Brad Odell, Attorney, Mullin Hoard & Brown, LLP; 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 2020 (Tax Year 2019), the City's total tax rate has been set at \$0.55802 per \$100 taxable assessed valuation. The City's taxable assessed valuation increased approximately \$826.9 million or 4.6 % from FY 2019 to FY 2020. 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 ("LFPP"). 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, 2018 and the pension expense for the year ended is as follows:

<b>FYE 9-30-18</b>	<b>TMRS</b>	<b>LFPS</b>	<b>Total</b>
Net pension liability	\$86,450,251	\$84,352,092	\$170,802,343
Deferred outflows of resources	13,338,629	18,774,352	32,112,981
Deferred inflows of resources	17,723,816	1,149,026	18,872,842
Pension expense	17,043,364	15,336,719	3,380,083

**TMRS**...The City participates as one of 883 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 of 1986 (the “Code”). TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmr.com](http://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.

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. Employees for the City were required to contribute 7% of their annual gross earnings during fiscal year 2018. The contribution rates for the City were 17.95% and 18.05% in calendar years 2017 and 2018, respectively. The City’s contribution to TMRS for the year ended September 30, 2018, were \$17,788,537, and were equal to the required contributions.

The City’s net pension liability (NPL) was measured as of December 31, 2017, 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 fiscal year 2018. The contribution rates for the City were 21.72% and 21.81% in calendar years 2017 and 2018, respectively. The City’s contributions to LFPF for the year ended September 30, 2018 were \$7,111,376 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, 2018 – Note II, 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, 2018 – Note II, 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 clauses (1) or (12) 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 365 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 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, (v) 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 (vi) 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.

Effective September 1, 2019, the investment officer of a local government is allowed to invest bond proceeds or pledged revenue only to the extent permitted by the PFIA and in accordance with (i) statutory provisions governing the debt issuance (or lease, installment sale, or other agreement) and (ii) the local government's investment policy regarding the debt issuance or the agreement.

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 its Electric Light & Power System, 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 has exercised this authority and entered into an options contract with Northern States Power to provide a price ceiling for its energy purchases for a two year period beginning June 2019.

### **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 (i) invest in commercial paper notes with a stated maturity of greater than 270 days and (ii) 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 14 in "APPENDIX A – FINANCIAL INFORMATION REGARDING THE CITY" for details on the City's investable funds as of August 31, 2019.

## **TAX MATTERS**

Interest on the Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the amount, accrual, or receipt of interest on the Bonds. A complete copy of the proposed form of the legal opinion of Bond Counsel for the Bonds is set forth in APPENDIX C hereto.

The following discussion summarizes certain U.S. federal tax consideration generally applicable to holders of the Bonds that acquire their Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings and decisions effect and available on the date hereof, all of which are subject to change, possibly without retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the Internal Revenue Service (the "IRS") with respect to any of the U.S. federal tax consequences discussed below, and no assurance can be given that the IRS will not take any contrary tax positions. Further, the following discussion does not deal with any U.S. tax consequences applicable to any given investor, nor does it address the U.S. tax considerations applicable to all categories of investors, some of which may be subject to special taxing rules (regardless of whether or not such investors constitute U.S. Holders), such as certain U.S. expatriates, banks, Real Estate Investment Trusts ("REITs"), Regulated Investment Companies ("RICs"), insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose "functional currency" is not the U.S. dollar. Furthermore, it does not address (i) alternative minimum tax consequences, (ii) the net investment income tax imposed under Section 1411 of the Code, or (iii) the indirect effects on persons who hold equity interests in a holder. This summary also does not consider the taxation of the Bonds under state, local or non-U.S. tax laws. In addition, this summary generally is limited to U.S. tax considerations applicable to investors that acquire their Bonds pursuant to this offering for the issue price that is applicable to such Bonds (i.e., the price at which a substantial amount of the Bonds are sold to the public) and who will hold their Bonds as "capital assets" within the meaning of Section 1221 of the Code.

As used herein, "U.S. Holder" means a beneficial owner of a Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). As used herein, "Non-U.S. Holder" generally means a beneficial owner of a Bond (other than a partnership) that is not a U.S. Holder. If a partnership holds Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Bonds (including their status as U.S. Holders or Non-U.S. Holders).

Notwithstanding the rules described below, it should be noted that certain taxpayers that are required to prepare certified financial statements or file financial statements with certain regulatory or governmental agencies may be required to recognize income, gain and loss with respect to the Bonds at the time that such income, gain or loss is recognized on such financial statements instead of under the rules described below.

Prospective investors should consult their own tax advisors in determining the U.S. federal, state, local or non-U.S. tax consequences to them from the purchase, ownership and disposition of the Bonds in light of their particular circumstances.

### **U.S. Holders**

*Interest.* Interest on the Bonds generally will be taxable to a U.S. Holder as ordinary interest income at the time such amounts are accrued or received, in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes.

To the extent that 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) by more than a de minimis amount, the difference may constitute original issue discount (“OID”). U.S. Holders of Bonds will be required to include OID in income for U.S. federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest (which may be before the receipt of cash payments attributable to such income). Under this method, U.S. Holders generally will be required to include in income increasingly greater amounts of OID in successive accrual periods.

Bonds purchased for an amount in excess of the principal amount payable at maturity (or, in some cases, at their earlier call date) will be treated as issued at a premium. A U.S. Holder of a Bond issued at a premium may make an election, applicable to all debt securities purchased at a premium by such U.S. Holder, to amortize such premium, using a constant yield method over the term of such Bond.

*Sale or Other Taxable Disposition of the Bonds.* Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, retirement (including pursuant to an offer by the City) or other disposition of a Bond will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of a Bond will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Bond, which will be taxed in the manner described above) and (ii) the U.S. Holder’s adjusted U.S. federal income tax basis in the Bond (generally, the purchase price paid by the U.S. Holder for the Bond, decreased by any amortized premium, and increased by the amount of any OID previously included in income by such U.S. Holder with respect to such Bond). Any such gain or loss generally will be capital gain or loss. In the case of a non-corporate U.S. Holder of the Bonds, the maximum marginal U.S. federal income tax rate applicable to any such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. holder’s holding period for the Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

*Defeasance of the Bonds.* If the City defeases any Bond, the Bond may be deemed to be retired for U.S. federal income tax purposes as a result of the defeasance. In that event, in general, a holder will recognize taxable gain or loss equal to the difference between (i) the amount realized from the deemed sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and (ii) the holder’s adjusted tax basis in the Bond.

*Information Reporting and Backup Withholding.* Payments on the Bonds generally will be subject to U.S. information reporting and possibly to “backup withholding.” Under Section 3406 of the Code and applicable U.S. Treasury Regulations issued thereunder, a non-corporate U.S. Holder of the Bonds may be subject to backup withholding at the current rate of 24% with respect to “reportable payments,” which include interest paid on the Bonds and the gross proceeds of a sale, exchange, redemption, retirement or other disposition of the Bonds. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a U.S. taxpayer identification number (“TIN”) to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a “notified payee underreporting” described in Section 3406(c) of the Code or (iv) the payee fails to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of the Code. Amounts withheld under the backup withholding rules may be refunded or credited against the U.S. Holder’s federal income tax liability, if any, provided that the required information is timely furnished to the IRS. Certain U.S. holders (including among others, corporations and certain tax-exempt organizations) are not subject to backup withholding. A holder’s failure to comply with the backup withholding rules may result in the imposition of penalties by the IRS.

## **Non-U.S. Holders**

*Interest.* Subject to the discussions below under the headings “Information Reporting and Backup Withholding” and “Foreign Account Tax Compliance Act,” payments of principal of, and interest on, any Bond to a Non-U.S. Holder, other than (1) a controlled foreign corporation, a such term is defined in the Code, which is related to the City through stock ownership and (2) a bank which acquires such Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, will not be subject to any U.S. federal withholding tax provided that the beneficial owner of the Bond provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading “Information Reporting and Backup Withholding,” or an exemption is otherwise established.

*Disposition of the Bonds.* Subject to the discussions below under the headings “Information Reporting and Backup Withholding” and “FATCA,” any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the City or a deemed retirement due to defeasance of the Bond) or other disposition of a Bond generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the City) or other disposition and certain other conditions are met.

*U.S. Federal Estate Tax.* A Bond that is held by an individual who at the time of death is not a citizen or resident of the United States will not be subject to U.S. federal estate tax as a result of such individual’s death, provided that, at the time of such individual’s death, payments of interest with respect to such Bond would not have been effectively connected with the conduct by such individual of a trade or business within the United States.

*Information Reporting and Backup Withholding.* Subject to the discussion below under the heading “FATCA,” under current U.S. Treasury Regulations, payments of principal and interest on any Bonds to a holder that is not a United States person will not be subject to any backup withholding tax requirements if the beneficial owner of the Bond or a financial institution holding the Bond on behalf

of the beneficial owner in the ordinary course of its trade or business provides an appropriate certification to the payor and the payor does not have actual knowledge that the certification is false. If a beneficial owner provides the certification, the certification must give the name and address of such owner, state that such owner is not a United States person, or, in the case of an individual, that such owner is neither a citizen nor a resident of the United States, and the owner must sign the certificate under penalties of perjury. The current backup withholding tax rate is 24%.

### **Foreign Account Tax Compliance Act (“FATCA”) – U.S. Holders and Non-U.S. Holders**

Sections 1471 through 1474 of the Code impose a 30% withholding tax on certain types of payments made to foreign financial institutions, unless the foreign financial institution enters into an agreement with the U.S. Treasury to, among other things, undertake to identify accounts held by certain U.S. persons or U.S.-owned entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent it from complying with these and other reporting requirements, or unless the foreign financial institution is otherwise exempt from those requirements. In addition, FATCA imposes a 30% withholding tax on the same types of payments to a non-financial foreign entity unless the entity certifies that it does not have any substantial U.S. owners or the entity furnishes identifying information regarding each substantial U.S. owner. Under current guidance, failure to comply with the additional certification, information reporting and other specified requirements imposed under FATCA could result in the 30% withholding tax being imposed on payments of interest on the Bonds. In general, withholding under FATCA currently applies to payments of U.S. source interest (including OID) and, under current guidance, will apply to certain “passthru” payments no earlier than the date that is two years after publication of final U.S. Treasury Regulations defining the term “foreign passthru payments.” Prospective investors should consult their own tax advisors regarding FATCA and its effect on them.

The foregoing summary is included herein for general information only and does not discuss all aspects of U.S. federal taxation that may be relevant to a particular holder of Bonds in light of the holder’s particular circumstances and income tax situation. Prospective investors are urged to consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition.

### **RATINGS**

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

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 security’s rating is not a recommendation to buy, sell or hold 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. 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. The Amarillo Court of Appeals has recused itself from the case and it was transferred to the 14th Court of Appeals in Houston.

### **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 D. 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 BONDS FOR SALE,” “LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS,” “LEGAL MATTERS,” “CONTINUING DISCLOSURE OF INFORMATION” (except for the subsection “Compliance with Prior Undertakings”), and in “APPENDIX C – EXCERPTS OF SELECTED PROVISIONS OF THE BOND ORDINANCE,” 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 with respect to the Bonds 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 1-15) and APPENDIX B. The City will provide this information within 6 months after the end of each fiscal year ending in or after 2019. 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 the Electronic Municipal Market Access System (“EMMA”) or filed with the SEC.

The City’s current fiscal year end is September 30. Accordingly, the City must provide updated financial information and operating data included in the above referenced tables by March 31 in each year, and audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available) must be provided by September 30 in each

year, unless the City changes its fiscal year. If the City changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB via EMMA prior to the next date by which the City otherwise would be required to provide financial information and operating data as set forth above.

### **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; (14) appointment of a successor trustee or change in the name of the trustee, if material; (15) incurrence of a debt obligation of the City or a derivative instrument entered into by the City in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or a guarantee by the City of any such debt obligation or derivative instrument, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such debt obligation, derivative instrument, or guarantee of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such debt obligation, derivative instrument, or guarantee of the City, any of which reflect financial difficulties.

For these purposes, any event described in the immediately preceding paragraph (12) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States 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 such jurisdiction has been assumed by leaving the existing governing body 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. For the purposes of the above described event notices (15) and (16), the term “financial obligation” means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) a guarantee of (i) or (ii); provided however, that a “financial obligation” shall not include municipal securities as to which a final official statement (as defined in Rule 15c2-12) has been provided to the MSRB consistent with Rule 15c2-12.

The City shall also file notice with the MSRB, in a timely manner, of any failure by the City to provide financial information or operating data described in “Annual Reports” above by the time required as described above.

### **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](http://www.emma.msrb.org).

### **Limitations and Amendments**

The City has agreed to update information and to provide notices of certain 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 Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-12 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 Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of Rule 15c2-12 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 its continuing disclosure agreements made in accordance with the Rule 15c2-12.

### **VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS**

Robert Thomas CPA, LLC, a firm of independent certified public accountants, will deliver to the City, on or before the settlement date of the Bonds, its verification report indicating that it has verified, in accordance with the Statement on Standards for Consulting Services established by the American Institute of Certified Public Accountants (“AICPA”), the mathematical accuracy of 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, interest on and related call premium requirements, if any, of the Refunded Bonds.

Robert Thomas CPA, LLC relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the City. In addition, Robert Thomas CPA, LLC has relied on any information provided to it by the City’s retained advisors, consultants or legal counsel. Robert Thomas CPA, LLC was not engaged to perform audit or attest services AICPA auditing or attestation standards or to provide any form of attest report or opinion under such standards in conjunction with this engagement.

The verification report will be relied upon by Bond Counsel in rendering its opinion with respect to the defeasance of the Refunded Obligations.

### **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 \$435,503.11.

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 Underwriters 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 Underwriters.

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 its various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the issuer (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the issuer. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

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.

## **FORWARD-LOOKING STATEMENTS DISCLAIMER**

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.

Blu Kostelich  
Authorized Officer  
City of Lubbock, Texas

**SCHEDULE I  
SCHEDULE OF REFUNDED OBLIGATIONS**

<u>Series</u>	<u>Maturity Date</u>	<u>Principal Refunded</u>	<u>Redemption Date</u>
Tax & Waterworks System Surplus Revenue Certificates of Obligation, Series 2011	02/15/2022	\$ 3,510,000	02/15/2021
	02/15/2023	3,685,000	02/15/2021
	02/15/2024	3,875,000	02/15/2021
	02/15/2025	4,075,000	02/15/2021
	02/15/2026	4,285,000	02/15/2021
	02/15/2027	4,505,000	02/15/2021
	02/15/2028	4,735,000	02/15/2021
	02/15/2029	4,975,000	02/15/2021
	02/15/2030	5,230,000	02/15/2021
	02/15/2031	5,500,000	02/15/2021
	<b>Subtotal</b>	<b>\$ 44,375,000</b>	
Tax & Waterworks System Surplus Revenue Certificates of Obligation, Series 2012	02/15/2023	\$ 1,000,000	02/15/2022
	02/15/2024	1,050,000	02/15/2022
	02/15/2025	1,105,000	02/15/2022
	02/15/2026	1,155,000	02/15/2022
	02/15/2027	1,215,000	02/15/2022
	02/15/2028	1,280,000	02/15/2022
	02/15/2029	1,350,000	02/15/2022
	02/15/2030	1,420,000	02/15/2022
	02/15/2031	1,485,000	02/15/2022
	02/15/2032	1,565,000	02/15/2022
<b>Subtotal</b>	<b>\$ 12,625,000</b>		
Tax & Waterworks System Surplus Revenue Certificates of Obligation, Series 2014	02/15/2026	\$ 2,105,000	02/15/2024
	02/15/2027	2,220,000	02/15/2024
	02/15/2028	2,325,000	02/15/2024
	02/15/2029	2,450,000	02/15/2024
	02/15/2030	2,575,000	02/15/2024
	02/15/2031	2,710,000	02/15/2024
	02/15/2032	2,845,000	02/15/2024
	02/15/2033	2,990,000	02/15/2024
	02/15/2034	3,145,000	02/15/2024
<b>Subtotal</b>	<b>\$ 23,365,000</b>		
<b>Total Obligations Refunded by the Bonds</b>		<b>\$ 80,365,000</b>	

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

**APPENDIX A**  
**FINANCIAL INFORMATION REGARDING THE SYSTEM**

**FINANCIAL INFORMATION REGARDING  
THE CITY OF LUBBOCK WATER AND WASTEWATER SYSTEM**

**TABLE 1 - TOTAL ANNUAL HISTORICAL CUSTOMERS**

<b>Fiscal Year Ended 30-Sep</b>	<b>Number of Customers</b>	
	<b>Water</b>	<b>Wastewater</b>
	2014	71,215
2015	72,328	71,782
2016	73,066	72,626
2017	77,242	74,088
2018	78,764	74,714
2019 <sup>(a)</sup>	82,458	78,218

Source: City's 2017/18 Comprehensive Annual Financial Report.

<sup>(a)</sup> Unaudited numbers.

**TABLE 2 - HISTORICAL WATER CONSUMPTION**

<b>Fiscal Year Ended 30-Sep</b>	<b>Average Daily Water Consumption (Gallons)</b>	<b>Maximum Daily Water Consumption (Gallons)</b>	<b>Miles of Mains</b>		<b>Number of Meters</b>
			<b>Water</b>	<b>Sewer</b>	
			2014	35,214,103	
2015	31,667,400	49,555,000	1,788.5	1,167.0	84,332
2016	33,178,203	58,372,000	1,727.3	1,152.0	85,761
2017	32,353,126	49,941,000	1,746.9	1,183.6	87,370
2018	34,559,677	52,276,000	1,780.1	1,203.0	88,834
2019 <sup>(a)</sup>	32,392,783	54,256,000	1,815.0	1,225.0	93,000

Maximum water production capacity (from water plant, lakes and wells).....	74.0 MGD
Maximum or Peak Usage to date (August 22, 2018).....	53.0 MGD
Overhead Storage Capacity.....	4.0 MGD
Ground Storage Capacity.....	50.5MGD

Source: City's Audited Financial Statements

<sup>(a)</sup> Unaudited numbers.

**TABLE 3 - TEN LARGEST WATER CUSTOMERS FISCAL YEAR 2019**

<b>Customer</b>	<b>Avg Monthly Use (Gallons)</b>	<b>% of Sys Avg Monthly</b>
Parks Department	24,156,500	1.46%
Texas Tech University	20,518,916	1.24%
Southwestern Public Service	8,084,200	0.49%
Lubbock Schools	7,953,600	0.48%
Covenant Health System	7,900,900	0.48%
X-Fab	7,346,100	0.44%
Town of Ransom	6,623,000	0.40%
LPL Electric Production	6,093,700	0.37%
City of Shallowater	5,131,100	0.31%
Texas Department of Criminal Justice	4,234,000	0.26%
Total	98,042,016	5.92%

Source: City's Audited Financial Statements

**TABLE 4 - HISTORICAL WASTEWATER PLANT TREATMENT**

The table below sets forth the average daily influent treated in million gallons per day, at the City's Southwest Water Reclamation Plant for each of the last five calendar years.

<u>Calendar Year</u>	<u>Average Treatment</u>
2014	17.6
2015	18.6
2016	19.6
2017	19.3
2018	18.0

**TABLE 5 - WATER AND WASTEWATER SYSTEM REVENUE BONDS COVERAGE**

	<u>Fiscal Years Ending September 30,</u>					
	<u>2019<sup>(a)</sup></u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Revenues	\$ 138,390,991	\$ 134,393,703	\$ 122,897,934	\$ 118,514,604	\$ 111,728,950	\$ 111,731,060
Operating Expenses	(43,729,073)	(44,079,446)	(43,397,015)	(45,665,794)	(40,872,396)	(41,823,766)
Transfer Out	<u>(22,773,005)</u>	<u>(17,549,851)</u>	<u>(14,823,979)</u>	<u>(14,109,673)</u>	<u>(14,356,632)</u>	<u>(22,636,151)</u>
Net Revenue Available for Debt Service	\$ 71,888,913	\$ 72,764,406	\$ 64,676,940	\$ 58,739,137	\$ 56,499,922	\$ 47,271,143
Customer Count Water/Wastewater		153,478	151,330	145,692	144,110	141,278
Fiscal Year 2020 Debt Service Coverage Ratio based on FY2018 Net Revenue						\$ 7,091,036 10.26 x
Average Annual Debt Service (FY2020-FY2039) Coverage Ratio based on FY2018 Net Revenue						\$ 4,700,476 15.48 x
Maximum Annual Debt Service (FY2020) Coverage Ratio based on FY2018 Net Revenue						\$ 12,747,746 5.71 x

Source: City's Audited Financial Statements

<sup>(a)</sup> Unaudited numbers.

**TABLE 6 - MONTHLY WATER RATES**

Lubbock City Council adopted water rate changes, effective December 1, 2017. Rates are designed to cover water expenses of the fiscal year and to fully fund the debt service for water supply projects.

<u>Base Rate <sup>(a)</sup></u>	<u>12/01/17</u>				
3/4" meter	\$ 18.00				
1" meter (single family residential)	30.06				
1" meter (other than residential)	30.06				
	Block 1 (0-1000)	Block 2 (1001-5,000)	Block 3 (5001-10,000)	Block 4 (10,001-30,000)	Block 5 (30,001) & Up
<u>Flow Rate Charge per 1,000 Gallons</u>					
Single Family Residential	\$ -	\$ 4.03	\$ 6.97	\$ 8.36	\$ 8.57
	Block 1	Block 2 (1001-40,000)	Block 3 (> Block 2)		
<u>Flow Rate Charge per 1,000 Gallons</u>					
Single Family Residential Irrigation	n/a	\$ 6.50 (based on meter size)	\$ 7.79 (> Block 2)		
Non-Residential Irrigation	n/a	\$ 6.50	\$ 7.79 (> Block 2)		
	Block 1 (0-AWC)	Block 2 (AWC- AWC*50%)	Block 3 (AWC+(AWC* 50%))&UP		
<u>Flow Rate Charge per 1,000 Gallons</u>					
Multi-Family Residential, Commercial and Public	\$ 4.76	\$ 6.50	\$ 7.79		
Schools	\$ 4.76	n/a	n/a		
Wholesale	\$ 7.140	\$ 9.750	\$ 11.685		

<sup>(a)</sup> The Base Rate is for water service; Base Rates shown are for a 3/4" water meter and a 1" meter for residential and commercial customers; higher Base Rates apply to meters ranging from 1.5" to 10".

**TABLE 7 - MONTHLY WASTEWATER RATES**

In providing adequate wastewater service to its customers, the utility must receive sufficient total revenue to ensure proper operation and maintenance, development and perpetuation of the system, and preservation of the utility's financial integrity. Nearly all of total revenue requirements for the utility is met from revenues derived from wastewater residential and commercial fees.

The goal in setting wastewater rates is to generate enough revenue to fund operating costs, debt payments, utility billing charges, indirect allocation, and transfers to the general fund; to adequately fund system improvements and maintenance programs; and to build and/or maintain target balances in both working capital and rate stabilization funds.

The Lubbock City Council adopted a rate increase for the wastewater rates that went into effect on December 1, 2018. Those rates remain in effect and are shown below.

<u>Residential</u>	<u>12/01/18</u>
Base Rate <sup>(a)</sup>	\$ 16.50
Flow Rate (Water Consumption)	3.71
<u>Commercial/Industrial <sup>(b)</sup></u>	
Base Rate <sup>(a)</sup>	\$ 29.07
Flow Rate (Water Consumption)	3.71

<sup>(a)</sup> The Base Rate is for wastewater service; Base Rates shown are for a 3/4" water meter for residential consumers and a 1 1/2" water meter for commercial consumers; higher Base Rates apply to larger meters ranging from 2" to 10".

<sup>(b)</sup> Industrial waste that exceeds allowable limits is subject to surcharge for treating biochemical oxygen demand ("B.O.D.") and total suspended solids ("T.S.S."). Present surcharge rate for B.O.D. is \$0.3494/lb. and for T.S.S. is \$0.3151/lb. effective October 1, 2018.

**TABLE 8 - WATER AND WASTEWATER REVENUE BOND DEBT SERVICE REQUIREMENTS**

FY Ending 30-Sep	Outstanding Parity Obligations <sup>(a)</sup>		Plus: The Bonds		Total Requirements
	Principal <sup>(b)</sup>	Interest	Principal <sup>(b)</sup>	Interest	
2020	\$ 1,925,000	1,147,993.65	\$ 2,455,000	\$ 1,563,042	\$ 7,091,036
2021	2,205,000	820,329.00	1,340,000	1,946,292	6,311,621
2022	2,265,000	757,829.00	4,820,000	1,889,470	9,732,299
2023	2,330,000	691,958.00	5,890,000	1,789,540	10,701,498
2024	2,395,000	622,344.00	6,005,000	1,676,464	10,698,808
2025	2,470,000	548,590.00	6,130,000	1,555,528	10,704,118
2026	2,545,000	470,249.00	8,330,000	1,402,497	12,747,746
2027	2,620,000	387,008.00	8,520,000	1,217,278	12,744,286
2028	2,690,000	298,897.00	8,710,000	1,020,206	12,719,103
2029	1,380,000	242,659.00	8,925,000	812,802	11,360,461
2030	1,295,000	221,597.00	9,145,000	594,371	11,255,968
2031	1,310,000	200,710.00	9,375,000	360,302	11,246,012
2032	1,325,000	178,243.00	3,910,000	186,505	5,599,748
2033	1,335,000	154,492.00	2,390,000	101,267	3,980,759
2034	1,350,000	131,965.50	2,460,000	34,280	3,976,246
2035	1,360,000	110,775.00	-	-	1,470,775
2036	1,370,000	88,234.00	-	-	1,458,234
2037	1,385,000	64,206.00	-	-	1,449,206
2038	1,395,000	39,166.00	-	-	1,434,166
2039	1,410,000	13,212.00	-	-	1,423,212
	<b>\$ 36,360,000</b>	<b>\$ 7,190,457</b>	<b>\$ 88,405,000</b>	<b>\$ 16,149,844</b>	<b>\$ 148,105,301</b>
Average Annual Principal and Interest Requirements (FY2020-FY2039) <sup>(b)</sup>					\$ 4,700,476
Maximum Annual Principal and Interest Requirement (FY2020) <sup>(b)</sup>					\$ 12,747,746

<sup>(a)</sup> Excludes the portion of the City's self-supporting general obligation debt that is paid from System revenues (see "Table 10 - AGGREGATE DEBT SUPPORTED BY THE WATER AND WASTEWATER SYSTEM"). Excludes amounts payable to the Canadian River Municipal Water Authority ("CRMWA") pursuant to the CRMWA Contract, which constitute operating expenses of the System and are paid prior to the Parity Obligations.

<sup>(b)</sup> Principal paid February 15 of each year.

**TABLE 9 - ANTICIPATED ISSUANCE OF SYSTEM REVENUE BONDS**

After the issuance of the Bonds, the City expects to issue additional System revenue bonds on an annual basis to provide funding for its Water and Wastewater System Capital Improvement Plan ("the CIP"); see "Table 15 - SYSTEM SIX-YEAR CAPITAL IMPROVEMENT PLAN" for details of the CIP.



**TABLE 10 - AGGREGATE DEBT SUPPORTED BY THE WATER AND WASTEWATER SYSTEM**

FY Ending 30-Sep	Outstanding Parity Obligations Debt Service <sup>(a)</sup>	Debt Service on Outstanding Self-Supporting GO Debt Paid from System Revenues <sup>(b)</sup>	Less: Refunded Obligations <sup>(d)</sup>		Plus: The Bonds		Total Requirements <sup>(e)</sup>
			Principal <sup>(c)</sup>	Interest	Principal <sup>(c)</sup>	Interest	
2020	\$ 3,072,994	\$ 52,595,578	-	4,018,250	\$ 2,455,000	\$ 1,563,042	\$ 55,668,363
2021	3,025,329	51,183,698	-	4,018,250	1,340,000	1,946,292	53,477,069
2022	3,022,829	46,507,849	3,510,000	3,930,500	4,820,000	1,889,470	48,799,648
2023	3,021,958	45,346,020	4,685,000	3,725,625	5,890,000	1,789,540	47,636,893
2024	3,017,344	44,979,326	4,925,000	3,485,375	6,005,000	1,676,464	47,267,759
2025	3,018,590	44,033,184	5,180,000	3,232,750	6,130,000	1,555,528	46,324,552
2026	3,015,249	42,963,747	7,545,000	2,914,625	8,330,000	1,402,497	45,251,867
2027	3,007,008	39,922,159	7,940,000	2,527,500	8,520,000	1,217,278	42,198,946
2028	2,988,897	38,152,961	8,340,000	2,120,500	8,710,000	1,020,206	40,411,564
2029	1,622,659	32,752,792	8,775,000	1,692,625	8,925,000	812,802	33,645,628
2030	1,516,597	32,468,556	9,225,000	1,242,625	9,145,000	594,371	33,256,899
2031	1,510,710	20,542,252	9,695,000	769,625	9,375,000	360,302	21,323,639
2032	1,503,243	14,890,623	4,410,000	417,000	3,910,000	186,505	15,663,371
2033	1,489,492	13,286,050	2,990,000	232,000	2,390,000	101,267	14,044,809
2034	1,481,966	11,112,975	3,145,000	78,625	2,460,000	34,280	11,865,596
2035	1,470,775	7,900,175	-	-	-	-	9,370,950
2036	1,458,234	3,023,600	-	-	-	-	4,481,834
2037	1,449,206	1,014,900	-	-	-	-	2,464,106
2038	1,434,166	-	-	-	-	-	1,434,166
2039	1,423,212	-	-	-	-	-	1,423,212
2040	-	-	-	-	-	-	-
	<b>\$ 43,550,457</b>	<b>\$ 542,676,445</b>	<b>\$ 80,365,000</b>	<b>\$ 34,405,875</b>	<b>\$ 88,405,000</b>	<b>\$ 16,149,844</b>	<b>\$ 576,010,871</b>

<sup>(a)</sup> Outstanding Parity Obligations do not include the Bonds.

<sup>(b)</sup> Prior to the City's issuance of System revenue secured Parity Bonds, the City historically issued Tax and Waterworks System Surplus Revenue Certificates of Obligation and Tax Notes secured by an ad valorem tax pledge (collectively, "Self-Supporting General Obligation Debt") to finance a variety of capital projects, including projects for the Water and Wastewater System. Historically, the City has budgeted and paid debt service on the portion of Self-Supporting General Obligation Debt issued to fund Water and Wastewater System projects from revenues of the System. The City expects to continue to budget and pay debt service on Self-Supporting General Obligation Debt shown in these columns from System revenues remaining after payment of Parity Obligations.

<sup>(c)</sup> Principal paid February 15 of each year.

<sup>(d)</sup> The Refunded Obligations represent self-supporting general obligation debt paid from the Water and Wastewater System that is being refunded with proceeds of the Bonds.

<sup>(e)</sup> Represents combined total of Parity Obligations, which are secured by pledge of Net Revenues of the System, and Self-Supporting General Obligation Debt supported by and paid from System revenues.

**TABLE 11 - CITY'S EQUITY IN THE WATER AND WASTEWATER SYSTEM**

	<b>Fiscal Years Ended September 30,</b>				
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Water & Wastewater					
System in Service	\$ 1,314,278,971	\$ 1,115,978,829	\$ 1,088,669,704	\$ 1,034,944,529	\$ 985,980,847
Reserve for Depreciation	<u>(373,541,389)</u>	<u>(348,107,080)</u>	<u>(323,659,734)</u>	<u>(299,273,860)</u>	<u>(279,848,506)</u>
Net Plant in Service	940,737,582	767,871,749	765,009,970	735,670,669	706,132,341
Construction Funds Net Assets	<u>17,999,425</u>	<u>177,285,344</u>	<u>124,155,825</u>	<u>94,034,012</u>	<u>58,006,419</u>
Net Fixed Asset Value	<b><u>\$ 958,737,007</u></b>	<b><u>\$ 945,157,093</u></b>	<b><u>\$ 889,165,795</u></b>	<b><u>\$ 829,704,681</u></b>	<b><u>\$ 764,138,760</u></b>
Plus Other Assets	10,767,927	10,340,227	12,446,524	10,000,288	5,152,629
Plus Operating Working Capital	<u>53,330,180</u>	<u>70,355,795</u>	<u>122,795,770</u>	<u>151,132,586</u>	<u>146,209,863</u>
Assets Net of Current					
Liabilities and Debt Reserves	1,022,835,114	1,025,853,115	1,024,408,089	990,837,555	915,501,252
Long-Term Debt	518,690,991	563,279,174	595,812,119	600,520,268	560,936,395
Less Debt Reserves	<u>(20,481,855)</u>	<u>(21,243,663)</u>	<u>(20,917,128)</u>	<u>(24,856,096)</u>	<u>(23,001,687)</u>
Net Long-Term Debt	498,209,136	542,035,511	574,894,991	575,664,172	537,934,708
Plus Other Liabilities	<u>26,327,257</u>	<u>21,693,619</u>	<u>21,318,847</u>	<u>16,706,515</u>	<u>6,999,750</u>
Total Obligations	524,536,393	563,729,130	596,213,838	592,370,687	544,934,458
City's Equity in the System	<b><u>\$ 498,298,721</u></b>	<b><u>\$ 462,123,985</u></b>	<b><u>\$ 428,194,251</u></b>	<b><u>\$ 398,466,868</u></b>	<b><u>\$ 370,566,794</u></b>
	48.72%	45.05%	41.80%	40.22%	40.48%

**TABLE 12 - WATER AND WASTEWATER SYSTEM NET POSITION**

	<b>Fiscal Years Ended September 30,</b>				
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>OPERATING REVENUES</b>					
Charges for services (net)	\$ 134,393,703	\$ 122,897,934	\$ 118,514,604	\$ 111,728,950	\$ 111,731,060
Total operating revenues	<b>\$ 134,393,703</b>	<b>\$ 122,897,934</b>	<b>\$ 118,514,604</b>	<b>\$ 111,728,950</b>	<b>\$ 111,731,060</b>
<b>OPERATING EXPENSES</b>					
Personal services	\$ 14,544,292	\$ 14,764,329	\$ 15,137,147	\$ 14,358,945	\$ 14,154,396
Supplies	3,139,821	2,694,240	2,623,683	2,451,985	2,474,568
Maintenance	4,191,322	4,271,174	4,186,667	4,201,374	3,811,023
Billing office expense	4,089,230	3,867,509	4,008,988	3,809,048	3,768,786
Other services and charges	18,114,781	17,799,763	19,709,309	16,051,044	17,614,993
Depreciation and amortization	26,729,667	26,446,627	25,664,852	24,463,208	23,140,561
Total operating expenses	<b>\$ 70,809,113</b>	<b>\$ 69,843,642</b>	<b>\$ 71,330,646</b>	<b>\$ 65,335,604</b>	<b>\$ 64,964,327</b>
Operating income (loss)	<b>\$ 63,584,590</b>	<b>\$ 53,054,292</b>	<b>\$ 47,183,958</b>	<b>\$ 46,393,346</b>	<b>\$ 46,766,733</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Interest earnings	\$ 5,496,888	\$ 1,618,257	\$ 1,099,459	\$ 768,603	\$ 456,830
Passenger facility charges & Federal grants	90,000	29,460	120,540	-	461,166
Disposition of assets	20,017	(394,640)	237,604	(68,790)	191,279
Miscellaneous	(1,427,300)	754,507	478,016	322,861	422,285
IRS Build America Bond Subsidy	1,076,442	1,532,969	1,534,629	1,526,395	1,528,042
Interest expense	(22,334,387)	(14,111,266)	(16,276,160)	(17,781,747)	(19,172,591)
Net nonoperating revenues (expenses)	<b>\$ (17,078,340)</b>	<b>\$ (10,570,713)</b>	<b>\$ (12,805,912)</b>	<b>\$ (15,232,678)</b>	<b>\$ (16,112,989)</b>
Income (loss) before contributions & transfers	\$ 46,506,250	\$ 42,483,579	\$ 34,378,046	\$ 31,160,668	\$ 30,653,744
Capital contributions/grants	12,595,493	6,044,702	9,257,573	18,162,539	7,871,746
Transfers in	148,832	225,432	201,437	190,826	78,870
Transfers out	(17,549,851)	(14,823,979)	(14,109,673)	(14,356,632)	(22,636,151)
Change in net position (deficit)	<b>\$ 41,700,724</b>	<b>\$ 33,929,734</b>	<b>\$ 29,727,383</b>	<b>\$ 35,157,401</b>	<b>\$ 15,968,209</b>
<b>TOTAL NET POSITION/(DEFICIT)</b>					
Beginning of year (restated)	<b>\$ 456,597,997</b>	<b>\$ 428,194,251</b>	<b>\$ 398,466,868</b>	<b>\$ 363,309,467</b>	<b>\$ 354,598,585</b>
End of year	<b>\$ 498,298,721</b>	<b>\$ 462,123,985</b>	<b>\$ 428,194,251</b>	<b>\$ 398,466,868</b>	<b>\$ 370,566,794</b>

**TABLE 13 - WATER AND WASTEWATER SYSTEM BALANCE SHEET**

	<b>Fiscal Years Ended September 30,</b>				
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 2,100,064	\$ 2,767,778	\$ 6,063,328	\$ 5,261,240	\$ 8,151,877
Investments	48,285,984	41,960,048	38,051,134	39,311,465	40,785,556
Accounts receivable, net	17,240,013	13,619,885	13,332,640	13,917,288	11,529,281
Interest receivable	317,512	223,776	150,415	144,916	139,740
Due from others	28,190	38,428	89,920	55,129	101,064
Due from other governments	308,372	56,747	122,870	49,547	186,718
Inventories	236,530	149,357	237,458	260,379	240,380
Total current assets	<u>\$ 68,516,665</u>	<u>\$ 58,816,019</u>	<u>\$ 58,047,765</u>	<u>\$ 58,999,964</u>	<u>\$ 61,134,616</u>
Noncurrent assets:					
Restricted investments	<u>\$ 60,588,704</u>	<u>\$ 96,297,992</u>	<u>\$ 145,588,273</u>	<u>\$ 175,046,846</u>	<u>\$ 160,472,288</u>
Total noncurrent assets	<u>\$ 60,588,704</u>	<u>\$ 96,297,992</u>	<u>\$ 145,588,273</u>	<u>\$ 175,046,846</u>	<u>\$ 160,472,288</u>
Capital assets:					
Land	\$ 40,075,639	\$ 37,610,970	\$ 37,549,354	\$ 37,163,292	\$ 35,758,457
Construction in progress	17,999,425	177,285,344	124,155,825	94,034,012	58,006,419
Buildings	155,785,840	111,150,801	110,190,700	105,627,565	102,673,394
Improvements other than buildings	995,106,673	879,953,359	855,028,970	812,301,887	770,494,811
Machinery and equipment	123,310,819	87,263,699	85,900,680	79,851,785	77,054,185
Less accumulated depreciation	(373,541,389)	(348,107,080)	(323,659,734)	(299,273,860)	(279,848,506)
Total capital assets	<u>\$ 958,737,007</u>	<u>\$ 945,157,093</u>	<u>\$ 889,165,795</u>	<u>\$ 829,704,681</u>	<u>\$ 764,138,760</u>
Total noncurrent assets	<u>\$ 1,019,325,711</u>	<u>\$ 1,041,455,085</u>	<u>\$ 1,034,754,068</u>	<u>\$ 1,004,751,527</u>	<u>\$ 924,611,048</u>
Total assets	<u>\$ 1,087,842,376</u>	<u>\$ 1,100,271,104</u>	<u>\$ 1,092,801,833</u>	<u>\$ 1,063,751,491</u>	<u>\$ 985,745,664</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred charge on refunding	\$ 8,434,701	\$ 6,410,404	\$ 7,621,927	\$ 8,096,836	\$ 5,152,629
Deferred outflows from pensions	2,333,226	3,929,823	4,824,597	1,903,452	-
Total deferred outflows of resources	<u>\$ 10,767,927</u>	<u>\$ 10,340,227</u>	<u>\$ 12,446,524</u>	<u>\$ 10,000,288</u>	<u>\$ 5,152,629</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	\$ 9,017,881	\$ 17,098,693	\$ 14,616,648	\$ 16,055,453	\$ 12,550,803
Accrued liabilities	575,308	537,872	544,271	428,029	371,278
Accrued interest payable	2,565,875	3,025,182	3,429,232	3,500,538	3,392,127
Customer deposits	285,018	278,838	264,933	246,423	217,038
Compensated absences	1,375,061	1,177,756	1,077,517	1,029,138	940,475
Leases payable	333,489	601,430	1,114,397	1,009,637	1,020,506
Bonds payable	41,140,702	40,794,782	38,876,142	35,788,910	33,903,127
Total current liabilities	<u>\$ 55,293,334</u>	<u>\$ 63,514,553</u>	<u>\$ 59,923,140</u>	<u>\$ 58,058,128</u>	<u>\$ 52,395,354</u>
Noncurrent liabilities:					
Compensated absences	\$ 397,052	\$ 529,891	\$ 550,545	\$ 611,313	\$ 780,759
Post employment benefits	15,008,586	7,594,125	7,113,579	5,959,783	4,962,621
Net pension liability	9,229,039	13,207,755	13,132,274	9,675,241	1,256,370
Leases payable	1,528,772	2,987,550	4,580,057	4,264,330	4,346,780
Bonds payable	517,162,219	560,291,624	591,232,062	596,255,938	556,589,615
Total noncurrent liabilities	<u>\$ 543,325,668</u>	<u>\$ 584,610,945</u>	<u>\$ 616,608,517</u>	<u>\$ 616,766,605</u>	<u>\$ 567,936,145</u>
Total liabilities	<u>\$ 598,619,002</u>	<u>\$ 648,125,498</u>	<u>\$ 676,531,657</u>	<u>\$ 674,824,733</u>	<u>\$ 620,331,499</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred inflows from pensions	\$ 1,692,580	\$ 361,848	\$ 522,449	\$ 460,178	\$ -
Total deferred inflows of resources	<u>\$ 1,692,580</u>	<u>\$ 361,848</u>	<u>\$ 522,449</u>	<u>\$ 460,178</u>	<u>\$ -</u>
<b>NET POSITION (DEFICIT)</b>					
Net investment in capital assets	\$ 442,604,603	\$ 407,310,952	\$ 372,665,371	\$ 336,399,839	\$ 305,749,333
Restricted for:					
Debt service	20,481,855	21,243,663	20,917,128	24,856,096	23,001,687
Unrestricted	<u>35,212,263</u>	<u>33,569,370</u>	<u>34,611,752</u>	<u>37,210,933</u>	<u>41,815,774</u>
Total net position (deficit)	<u>\$ 498,298,721</u>	<u>\$ 462,123,985</u>	<u>\$ 428,194,251</u>	<u>\$ 398,466,868</u>	<u>\$ 370,566,794</u>

**TABLE 14 - CURRENT INVESTMENTS**

As of August 31, 2019, the City's investable funds were invested in the following categories:

<u>Type</u>	<u>Par Value</u>	<u>Book Value</u>		<u>Estimated Market Value<sup>(a)</sup></u>	
		<u>Value</u>	<u>% of Total Book Value</u>	<u>Value</u>	<u>% of Total Market Value</u>
Cash	\$ 7,243,161	\$ 7,243,161	1.20%	\$ 7,243,161	1.19%
Money Market Mutual Funds <sup>(b)</sup>	7,564,202	7,564,202	1.25%	7,564,202	1.24%
Investments	173,659,000	174,251,110	28.78%	176,563,353	29.06%
Local Government Investment Pools <sup>(c)</sup>	416,308,718	416,308,718	68.77%	416,308,718	68.51%
	<b>\$ 604,775,081</b>	<b>\$ 605,367,191</b>	<b>100.00%</b>	<b>\$ 607,679,434</b>	<b>100.00%</b>

<sup>(a)</sup> 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.

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

<sup>(c)</sup> 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.

**TABLE 15 - SYSTEM SIX-YEAR CAPITAL IMPROVEMENT PLAN**

<u>Fiscal Year Ending September 30</u>	<u>Total W&amp;WW Capital Improvements <sup>(a)(b)</sup></u>
2019	\$ 41,910,000
2020	76,830,000
2021	28,350,000
2022	35,180,000
2023	44,660,000
2024	13,140,000
2025	14,170,000
Total	<b>\$ 254,240,000</b>

<sup>(a)</sup> FY2019 figures are actual. FY2020-FY2025 are projected, subject to change as the City and the System review priorities and revise the Systems's capital plan annually.

<sup>(b)</sup> The six-year capital improvement plan has been updated with information from the FY 2019-20 Operating Budget.

**APPENDIX B**  
**EXCERPTS FROM ANNUAL FINANCIAL REPORT FOR**  
**THE YEAR ENDED SEPTEMBER 30, 2018**



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

February 6, 2019

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, 2018. 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 Weaver and Tidwell, 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 6, 2019

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 2018 population is 261,946. The City covers approximately 136 square miles.<sup>1</sup> 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

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<sup>1</sup> City of Lubbock GIS Department.



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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.

### **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. During FY 2018 a public safety improvement project was approved. This will include the building of three police substations, a new police headquarters building, and a new property room. These projects will take approximately 3 years to complete. As part of an effort to reach the goal of two officers for every 1,000 residents, the Police Department hired 23 new police recruits in FY 2018. As of September 30, 2018, the Police Department was staffed with 420 sworn officers plus an additional 9 Police Academy Recruits. In FY 2018, the Police Department had 310,005 responses to primary and backup dispatched calls for service with an average response time to Priority 1 calls of 6.54 minutes.

Lubbock Fire Rescue is dedicated to providing unparalleled emergency response and life safety services for the City. As of September 30, 2018, the Fire Department operated 19 fire stations and was staffed with 404 sworn firefighters. The construction of a new Emergency Operations Center began in December 2016, and was completed in the second quarter of FY 2017. Improvements continue for fire stations citywide as a result of funding for fire station renovations appropriated in the FY 2018 budget. We will continue to improve and renovate our facilities with \$300,000 being allocated for FY 2019. In FY 2018, the Fire Department responded to 18,985 calls, an average of 52 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 106,555 meters as of September 30, 2018, 37 substations, 4,312 total miles of primary and secondary distribution lines, and approximately 105 miles of transmission lines. The average daily electric consumption is roughly 7,175 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.

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On September 24, 2015 LP&L announced its 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 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. On September 1, 2017, LP&L filed its application in PUC Docket No. 47576, Application of the City of Lubbock through Lubbock Power and Light for Authority to Connect a Portion of Its System with the Electric Reliability Council of Texas ("Application"). Through the Application LP&L was seeking Commission authority to disconnect Affected Load from SPP and to connect to ERCOT, along with related findings that would facilitate LP&L's integration into the ERCOT system, consistent with the public interest.

From October 2017 to January 2018, LP&L worked closely with ERCOT and PUC staff in preparation of a public interest hearing which took place in January 2018. In March 2018, the PUC approved the integration of the Affected Load to the ERCOT system through an Order in PUC Docket No. 47576 ("PUC Order"). With approval by the PUC, LP&L then moved into the next phase of the ERCOT integration project which is comprised of the construction of transmission assets to connect the LP&L system to the ERCOT power grid.

The additional infrastructure necessary for the ERCOT integration will be studied and decided upon as part of the CCN case to take place through the PUC. A CCN case is expected to be initiated in the last quarter of 2018. LP&L currently estimates the cost of additional infrastructure necessary for LP&L to integrate into ERCOT at approximately \$400 million, of which approximately one-half is expected to be owned by LP&L.

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 to be 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 that will be 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 that was created to enhance the negotiating strength of the Cities in obtaining

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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, approve capital projects, approve debt issuance, and approve 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 maintains the “majority in interest” vote based on kilowatt purchases and consequently has majority voting control. As the City purchases approximately 95.6 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 may be obtained through the City.

**Water Utility:** The City’s most current Strategic Water Supply Plan was finalized in August 2018. 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 12.85 billion gallons of water in FY 2018. The City’s 5-year average per capita consumption for FY 2018 was 148 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 35.1 million gallons per day.

The City currently 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 8.23 billion gallons of its annual water supply from CRMWA in FY 2018. 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 five years ago. It is now at 38.2% of its capacity. Since June of 2015, CRMWA has been using 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 25 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 currently securing easements for a new pipeline route so a second transmission line (CRMWA II) can be constructed from the well field to the aqueduct. This will allow for the full utilization of the aqueduct to the southern cities. The project is estimated to be completed sometime after 2030 when all of the member cities have a need for the additional water.

The Bailey County Well Field contains 175 active water wells with 83,305 acres of water rights, providing 2.45 billion gallons of the City’s annual water supply in FY 2018. In October 2011, the City completed the construction of eight additional wells to maintain the well field production rates. The City will add additional wells to the Bailey County Well Field as needed to restore some of the well field production capacity.

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The City finished construction on Lake Alan Henry in 1993. In 2012, Phase I of the Lake Alan Henry infrastructure project was completed. This project consisted of constructing: 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 is capable of providing 11 million gallons of water per day to the City. Lake Alan Henry supplied 2.17 billion gallons of the City's annual water supply in FY 2018. The lake is currently at greater than 88% 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 88,524 meters through 1,752 miles of distribution lines as of January 1, 2018. The City also provides treated wholesale water to Shallowater, Ransom Canyon, Buffalo Springs Lake, Reese Redevelopment Authority, TDCJ's Montford Unit, and Lubbock Cooper ISD.

**Wastewater Utility:** Wastewater collection and treatment is provided within the city limits to residential, commercial, and industrial customers. As of December 31, 2017, the collection system consisted of approximately 1,181 miles of sanitary sewer lines and 34 lift stations. The Southeast Water Reclamation Plant (SEWRP) 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 SEWRP is 25 million gallons per day. The treated wastewater is disposed of or reused in various ways. In 2017, approximately 51 percent of the SEWRP 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 seven percent of the treated wastewater and 42 percent was discharged into the North Fork of the Double Mountain Fork (North Fork) of the Brazos River. Currently, dewatered solids generated during the wastewater treatment process are hauled and disposed of at the City's regional solid waste landfill in Abernathy, Texas. In April 2018, the new Northwest Water Reclamation Plant (NWWRP) became operational. This new plant was constructed to handle the growing sewer demand in the northwest part of Lubbock. The NWWRP had an average utilization of 1 million gallons per day. The permitted capacity of the NWWRP is 3 million gallons per day. Effluent from this plant is discharged into the North Fork of the Brazos River. All solids from the NWWRP are sent to the SEWRP for processing.

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 has 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 included upgrades and improvements to the influent lift station. Phase II included 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 included new covers, new mixing system, new heating system, and gas piping to Digester 8 and 9. Upgrades to the solids handling facility included new sludge thickening and dewatering equipment, sludge holding tank upgrades, odor control for the solids handling facility, and new sludge loading facilities. Phase IV will include upgrades to Plant 3 for biological removal. Design for rehabilitation of Plant 3 clarifiers and improved aeration capabilities has begun and 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 lines and manholes to improve aging infrastructure. The new Northwest Water Reclamation Plant relieves the surcharge of sewer mains serving north Lubbock. An

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update to the Wastewater Master Plan has begun. This plan will 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 1,235 miles of paved and unpaved streets, 624 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.

During FY 2018, the focus was on three major projects: Storm Water Master Plan, Storm Water Management Plan (SWMP), and Complete Phase 2 Construction of the Northwest Lubbock Drainage Project. The Storm Water Master Plan is a multi-year year project that is providing a comprehensive, holistic approach to storm water management. This project is updating 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 is implementing changes to achieve compliance with the City's MS4 Permit Renewal issued by 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 74,725 residential customers and 2,732 commercial customers. One of the City's two landfill sites is designated as 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, 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 RATP Dev North America. Transit services provided by Citibus include Fixed Route, CitiAccess (paratransit), Nite Ride (evening demand response service) in addition to other special services. There are nine fixed routes that traverse the City. CitiAccess is a curb-to-curb service for passengers in the community who are unable to utilize the regular fixed route service. The Citibus evening service is designed to meet the needs of the citizens of Lubbock who need transportation services outside of Citibus' fixed route and CitiAccess regular hours. 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

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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), HOME Investment Partnership, and Emergency Shelter Grant (ESG). With these programs, the City completed work on 93 houses in FY 2018 with 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. These funds allow the City to offer additional programs to its citizens. Through these programs in FY 2018, 291 households received assistance in repairing the heating and/or cooling systems in their homes, 1,090 households received utility assistance and 17 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 56 playgrounds. Other recreational facilities include 4 swimming pools, 60 tennis courts, 50 baseball and softball fields, 41 soccer fields, 3 disc golf courses, a cultural arts center, 5 community centers, and 4 adult activity centers. To further enhance quality of life and to provide support to tourism, the City operates the Memorial Civic Center, 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 franchise fees, 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 that have recently been completed include 98th Street between Milwaukee Avenue and Upland Ave, Erskine Avenue from Indiana Avenue to Quaker Ave.

Other street improvement projects under design or construction include the following:

- The unimproved roadways project which currently has Ave N, Ave O, Ave P, Wabash, Guava and 65<sup>th</sup> Street Under Construction. Beech Ave, East 16<sup>th</sup> St, East 17<sup>th</sup> St, Ute Ave, Salem Ave and 124<sup>th</sup> are currently under design
- The Upland Ave thoroughfare project has begun and is currently in the design phase from 66<sup>th</sup> St. to 114<sup>th</sup> St.
- The design of phases 3 and 4 of 34<sup>th</sup> Street from Slide Avenue to Quaker Avenue and Avenue Q to Interstate 27 is completed and awaiting funding.

### **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. For FY 2019, 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. The City Manager may make administrative transfers and increases or decreases between accounts below the fund level without City Council approval. However, any transfer of funds between Funds, 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 Funds or expended. 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**

The City of Lubbock has a stable economy with historically consistent and steady growth. Over the past forty years, Lubbock's agriculturally-based economy has diversified. This diversification minimizes the effects of business cycles experienced by individual sectors. The City has strong manufacturing, wholesale and retail trade, healthcare, education, and government sectors. Manufacturing includes a diverse group of employers who support approximately 4,800 workers. Our central location and access to transportation contributes to Lubbock's development as a regional warehousing and distribution center. Also due to its location, Lubbock serves as the major retail trade center for a 26-county retail trade area of more than half a million people.

The current expansion in the Lubbock economy reached the seven-year mark in August 2018 according to the Lubbock Economic Index, which represents the general condition of the Lubbock economy. Lubbock has been in a cycle of expansion for 84 months through August 2018. The Lubbock Economic Index has grown by 29 percent over that time, averaging 4.3 percent growth per year.

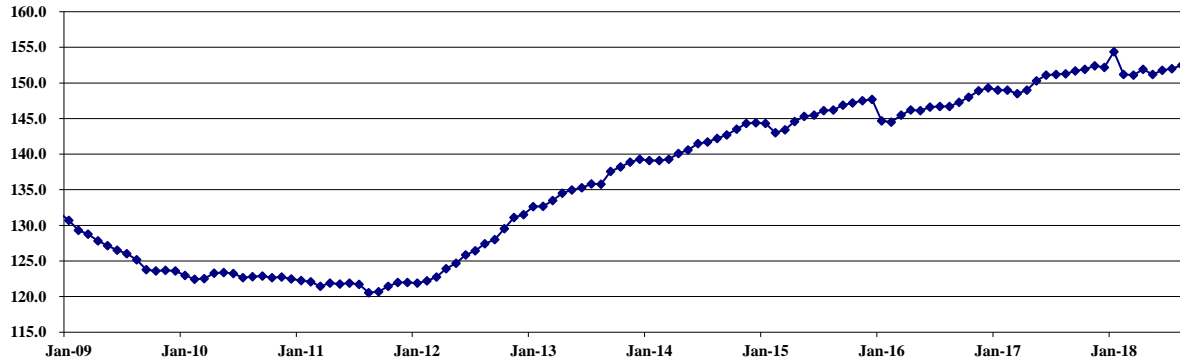
The Lubbock Economic Index increased to 152.5 in August 2018, up by 1.2 percent from the August 2017 index. Construction activity has expanded significantly in recent years and after setting records in 2017, construction has slowed in 2018. Building permits are down by 45 percent compared to the first eight months of 2017, largely due to very large and unique commercial projects permitted in the prior year. Residential building permits through August 2018 declined 8.3 percent compared to the same time period the prior year.<sup>2</sup>

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<sup>2</sup> Ingham Economic Reporting, July-August 2018, Lubbock Economic Index and Consumer Price Index, Amarillo, Texas: Karr Ingham

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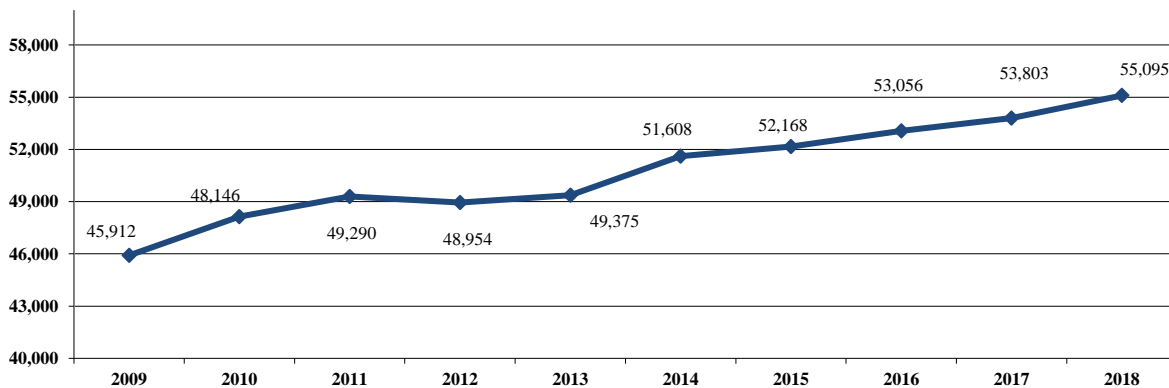
Lubbock Economic Index



The Southern High Plains District, comprised of 16 counties surrounding Lubbock, is one of the most productive agricultural areas in the United States. In 2018, 23.4 percent of the nation’s upland cotton crop and 42.6 percent of the state’s upland cotton crop were planted by farmers in the Southern High Plains District. The Southern High Plains production was 2.18 million bales, down 32.3 percent from the 3.22 million bales in 2017.<sup>3</sup>

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 2018 enrollment for all higher education institutions in Lubbock was 55,095, an increase of 2.4 percent from the Fall 2017 enrollment of 53,803. The increase was due to enrollment increases at Texas Tech, and Texas Tech Health Science Center, and Lubbock Christian University, offset slight by a decrease experienced at Wayland Baptist University and South Plains College. Texas Tech has set a goal to reach enrollment 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.

Higher Education Fall Enrollments 2008 - 2018



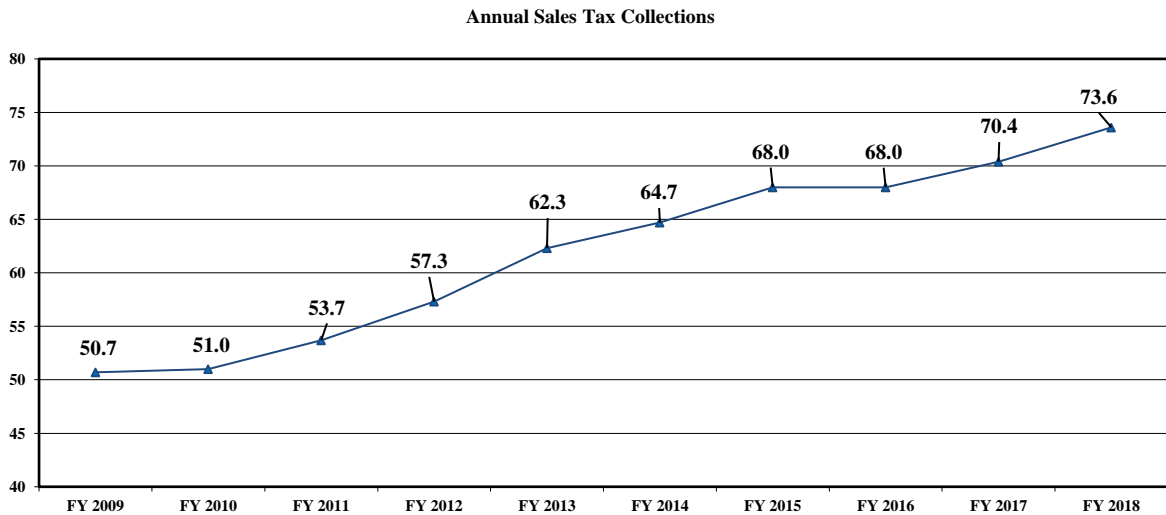
<sup>3</sup> United States Department of Agriculture, National Agriculture Statistics Service, retrieved from [http://www.nass.usda.gov/Quick\\_Stats/](http://www.nass.usda.gov/Quick_Stats/). (Figures are preliminary and will be updated as information becomes available.)



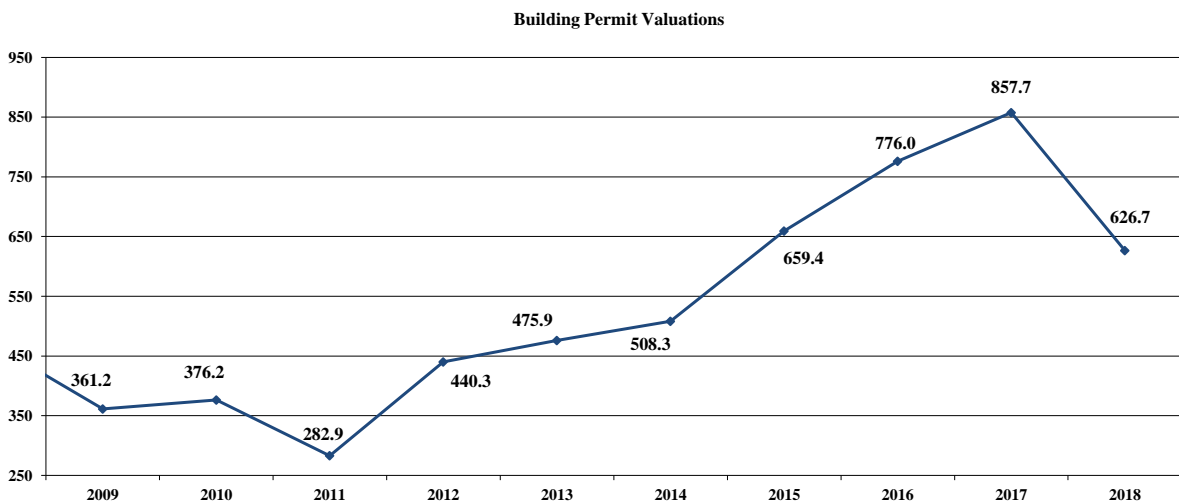
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The health care and social assistance sector is also a vital component of the Lubbock economy, with 24,624 employees and payroll exceeding \$1 billion.<sup>4</sup> Lubbock is home to several medical facilities including: University Medical Center, 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.

**Sales Tax Collections:** Sales tax collections in FY 2018 totaled \$73,571,504, 4.5 percent higher than collections through the same period in FY 2017.



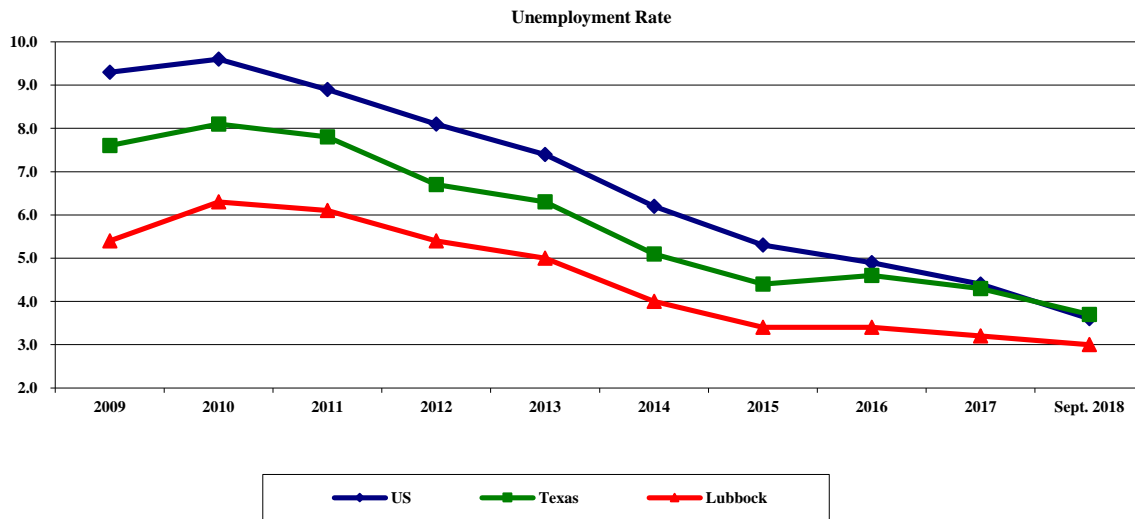
**Building Permit Valuations:** Construction activity has expanded significantly in recent years and after setting records in 2017, construction slowed in 2018. However, building permits are up by 109.6 percent compared to 2017, largely due to a major hail event that significantly increased the number of roofing permits issued. The yearly comparison is below:



<sup>4</sup> U.S. Census Bureau, 2015 County Business Patterns, retrieved from <http://censtats.census.gov/cgi-bin/cbpnaic/cbpsect.pl> (2-year delay in publication).

New residential permit totals issued through December 2018 were valued at 302.5 million, 23.5 percent below the same time period in 2017.<sup>5</sup> The preliminary average home sales price through October 2018 was \$196,081, an increase of 10.5 percent over FY 2017.<sup>6</sup>

**Employment:** The total non-agricultural employment estimate for September 2018 was 151,600, an increase of 2.6 percent over the revised September 2017 estimate of 147,800. The unemployment rate for the Lubbock Metropolitan Statistical Area (MSA) in September 2018 was 3.0 percent. Historically, Lubbock has had a low rate of unemployment that is well below the national and state unemployment rates.<sup>7</sup>



## 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 2018 were \$9.2 million.

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.

<sup>5</sup> City of Lubbock Building Inspection Department, October 2017 and October 2018 *Building Inspection Statistical Report*.

<sup>6</sup> Texas A&M University Real Estate Center, *Lubbock MLS Housing Activity Report (October 2018)*, retrieved from <http://recenter.tamu.edu/data/datahs.html> (Figures are preliminary and will be updated as information becomes available.)

<sup>7</sup> Texas Workforce Commission, *MSA Employment and Unemployment Data*, September 2018. (Current year numbers are the average through September 2018 and are updated as data becomes available.)

Honorable Mayor, City Council,  
And Citizens of the City of Lubbock, Texas  
February 6, 2019

***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. 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 2018 appraised value of the LBP Zone is \$82.4 million with a net taxable value of \$56.8 million, which is a \$56.4 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: eleven 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.

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), 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 2018 appraised value of the Overton Zone is \$507.6 million, which is a \$480.7 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. The funding in the North and East Lubbock Neighborhood and Infrastructure Fund in FY 2018 was used for rehabilitation of owner occupied homes in North and East Lubbock. In FY 2018, twenty-two owner occupied homes had minor rehabilitations with the funding available.

Honorable Mayor, City Council,  
And Citizens of the City of Lubbock, Texas  
February 6, 2019

***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 2018 appraised value of the CBD Zone is \$214 million, a \$108.1 million increase over the 2001 base year value.

## **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 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 6, 2019

## 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, 2017. 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 fourteen 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 Accounting Managers, 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.

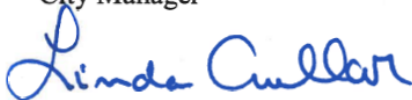
Respectfully submitted,



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

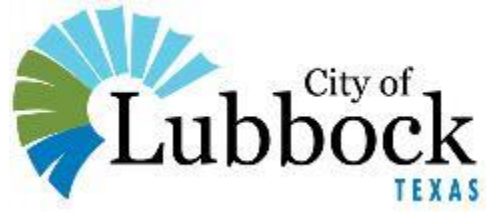
**September 30, 2017**

*Christopher P. Morrill*

Executive Director/CEO









## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying 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 (the City), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as 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 92 percent, 95 percent and 97 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*.

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.

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

## **Opinions**

In our opinion, based on our audit and the reports of 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 as of September 30, 2018 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.

## **Emphasis of Matters**

As discussed in Notes 1-I and I-J. to the basic financial statements, the City implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Beginning net position has been restated to reflect the change in accounting principle resulting from this statement. The City also implemented Governmental Accounting Standards Board Statement No. 85, *Omnibus 2017* which required Lubbock Power and Light (LP&L), a major enterprise fund of the City, to reclassify goodwill from a previous acquisition to a deferred outflow of resources. Our opinions are not modified with respect to these matters.

## **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, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a 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.

### 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 accompanying combining and individual fund statements and schedules, introductory and statistical sections, schedule of expenditures of federal awards and schedule of expenditures of state awards required by *Title 2 U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and State of Texas Uniform Grant Management Standards, issued by the Governor's Office of Budget and Planning, 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 schedules of expenditures of federal and state awards are the responsibility of management and were derived from and relate 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

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

statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying combining and individual fund statements, schedule of expenditures of federal awards and schedule of expenditures of state awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section 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 xx, 2019 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of the City's 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.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas  
February 6, 2019



**City of Lubbock, Texas**  
**Management's Discussion and Analysis**  
**For the Year Ended September 30, 2018**

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, 2018.

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, 2018 by \$933.9 million (net position).
- The City's total net position increased by \$84.1 million as a result of operations during the fiscal year. However, due to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), such as retiree health insurance, there was a prior period adjustment of (\$46.9) million resulting in a net increase in total net position of \$37.2 million.
- The ending unassigned fund balance for the General Fund was \$48.0 million, or 27.7 percent of total General Fund revenues, an increase of \$10.4 million from the prior year.
- The City's governmental funds reported combined ending fund balances of \$164.7 million, of which \$48.0 million is available for spending at the City's discretion.
- The City's enterprise funds reported combined ending net position of \$912.9 million, of which \$116.5 million is available for spending at the City's discretion.
- During FY 2018, the City issued \$236.6 million in bonded debt. Part of this was used to refund debt, which decreased debt service requirements by \$4.9 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.

**City of Lubbock, Texas**  
**Management's Discussion and Analysis**  
**For the Year Ended September 30, 2018**

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 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, 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 seven 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-

**City of Lubbock, Texas**  
**Management's Discussion and Analysis**  
**For the Year Ended September 30, 2018**

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.

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, airport, civic centers, cemetery, and Lake Alan Henry Recreation activities, of which the first four activities are considered to be major funds by the City and are presented separately. The latter five 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 60-110 of the CAFR.

**Other Information:** In addition to the basic financial statements and accompanying notes, this report also presents certain RSI including the Schedule of Changes in Net Pension Liability and Related Ratios, the Schedule of Contributions for the City's pension plans, and the Schedule of Changes in Total OPEB

**City of Lubbock, Texas  
Management's Discussion and Analysis  
For the Year Ended September 30, 2018**

Liability and Related Ratios. 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 111-118 of the CAFR.

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 \$933.9 million (*net position*) at the close of the fiscal year, compared to assets and deferred outflows exceeding liabilities and deferred inflows by \$896.6 million (*net position*) at the end of the prior fiscal year. As a result of operations, total net position increased by \$84.1 million during the period. However, due to the adoption of GASB Statement No. 75, there was a restatement of previously reported net position of (\$46.9) million resulting in a total decrease in net position below of \$37.2 million.

**City of Lubbock Net Position  
September 30  
(in thousands)**

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 209,172	\$ 192,931	\$ 470,136	\$ 413,792	\$ 679,308	\$ 606,723
Capital assets	468,328	422,376	1,521,974	1,510,554	1,990,302	1,932,930
Total assets	677,500	615,307	1,992,110	1,924,346	2,669,610	2,539,653
Total deferred outflows of resources	39,354	63,780	20,427	26,016	59,781	89,796
Current liabilities	23,488	22,779	61,701	60,887	85,189	83,666
Noncurrent liabilities	664,865	626,646	1,026,589	1,017,846	1,691,454	1,644,492
Total liabilities	688,353	649,425	1,088,290	1,078,733	1,776,643	1,728,158
Total deferred inflows of resources	12,933	3,364	5,940	1,297	18,873	4,661
Net position:						
Net investment in capital assets	152,999	126,550	764,280	730,908	917,279	857,458
Restricted	22,596	20,189	50,683	39,890	73,279	60,079
Unrestricted	(160,027)	(120,441)	103,343	99,534	(56,684)	(20,907)
Total net position	\$ 15,568	\$ 26,298	\$ 918,306	\$ 870,332	\$ 933,874	\$ 896,630

Approximately 98.2 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;



**City of Lubbock, Texas**  
**Management's Discussion and Analysis**  
**For the Year Ended September 30, 2018**

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 \$73.3 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.

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 and No. 75 in FY 2018 resulted in the City's reporting of net pension liabilities, total OPEB liability, deferred inflows of resources, deferred outflows of resources and recognition of pension/OPEB expense. Both statements had a significant negative effect on the Cities' net position and consequently unrestricted net position as of September 30, 2018.

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. The government-wide unrestricted net position decreased by \$35.8 million from FY 2017 due to the (\$46.9) million impact related to the implementation of GASB Statement No. 75.

**City of Lubbock, Texas**  
**Management's Discussion and Analysis**  
**For the Year Ended September 30, 2018**

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

	Governmental Activities		Business- type Activities		Totals	
	2018	2017	2018	2017	2018	2017
<b>Revenues:</b>						
Program Revenues:						
Charges for services	\$ 33,491	\$ 10,906	\$ 426,977	\$ 438,165	\$ 460,468	\$ 449,071
Operating grants and contributions	6,447	7,241	8,297	7,902	14,744	15,143
Capital grants and contributions	15,152	10,832	16,466	15,326	31,618	26,158
General Revenues:						
Property taxes	89,644	86,302	-	-	89,644	86,302
Sales taxes	73,572	70,418	-	-	73,572	70,418
Other taxes	9,018	8,629	-	-	9,018	8,629
Franchise fees	9,332	9,073	-	-	9,332	9,073
Investment earnings	2,675	1,371	8,241	2,841	10,916	4,212
Other	4,255	3,362	1,303	1,917	5,558	5,279
Total revenues	243,586	208,134	461,284	466,151	704,870	674,285
<b>Expenses:</b>						
Administrative services/general govt.	14,855	14,598	-	-	14,855	14,598
Community services	5,065	6,220	-	-	5,065	6,220
Cultural and recreation	18,894	20,146	-	-	18,894	20,146
Economic and business development	18,939	17,207	-	-	18,939	17,207
Fire	61,090	61,435	-	-	61,090	61,435
Health	5,790	5,905	-	-	5,790	5,905
Police	67,835	69,597	-	-	67,835	69,597
Other public safety	8,014	7,991	-	-	8,014	7,991
Streets and traffic	30,656	28,674	-	-	30,656	28,674
Solid Waste	16,820	-	-	-	16,820	-
Interest on long-term debt	11,858	12,349	-	-	11,858	12,349
Electric	-	-	217,958	224,783	217,958	224,783
Water/Wastewater	-	-	94,691	84,789	94,691	84,789
Solid Waste	-	-	-	19,277	-	19,277
Storm Water	-	-	11,658	11,901	11,658	11,901
Transit	-	-	13,614	13,293	13,614	13,293
Airport	-	-	17,865	16,720	17,865	16,720
Civic Centers	-	-	4,147	4,344	4,147	4,344
Cemetery	-	-	606	760	606	760
Lake Alan Henry	-	-	391	383	391	383
Total expenses	259,816	244,122	360,930	376,250	620,746	620,372
Change in net position before transfers	(16,230)	(35,988)	100,354	89,901	84,124	53,913
Transfers	40,130	34,989	(40,130)	(34,989)	-	-
Change in net position	23,900	(999)	60,224	54,912	84,124	53,913
Net position - beginning as restated*	(8,332)	27,297	858,082	815,420	849,750	842,717
Net position - end of year	\$ 15,568	\$ 26,298	\$ 918,306	\$ 870,332	\$ 933,874	\$ 896,630

\*The restatement of the beginning net position in FY 2018 is the result of the City implementing GASB Statement No. 75. FY 2017 was not restated.

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

**City of Lubbock, Texas**  
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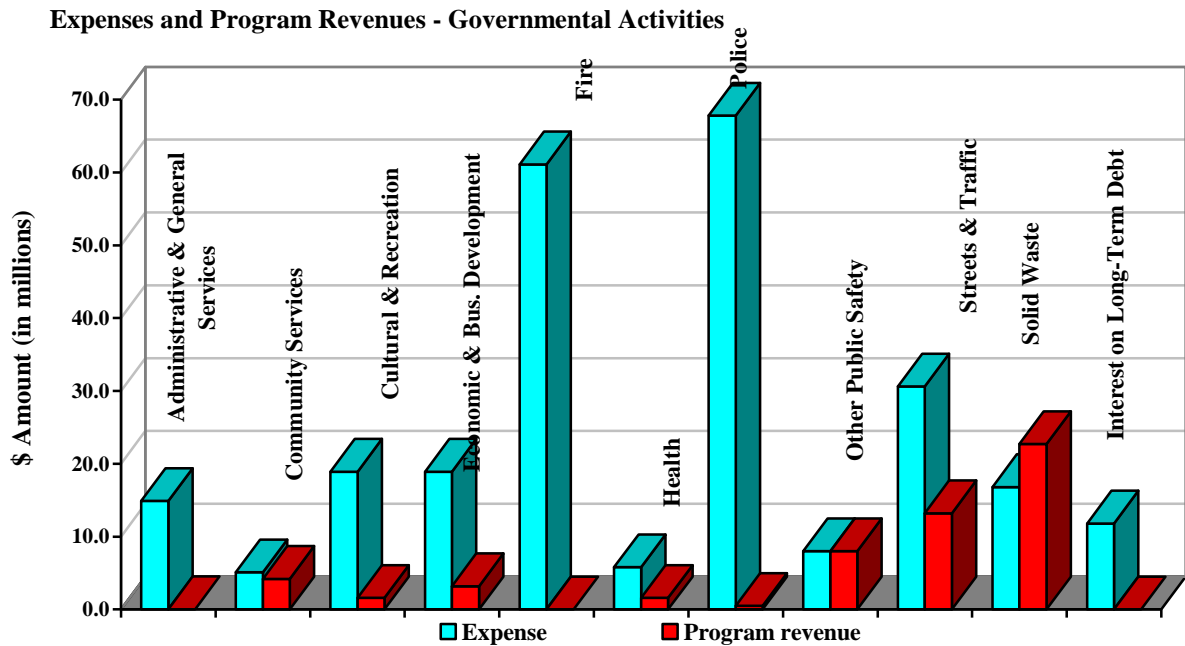
**Governmental activities:** The City's governmental activities experienced an increase in net position of \$22.3 million, compared to a decrease of \$1.0 million during the prior fiscal year. Key elements of the operational increase compared to prior year include:

- Revenues increased \$35.5 million, from \$208.1 million in FY 2017 to \$243.6 million in FY 2018.
  - The City experienced a \$26.1 million increase in total program revenues from FY 2017 to FY 2018. Charges for services increased \$22.6 million from FY 2017 to FY 2018 and operating grants and contributions decreased \$0.8 million. Capital grants and contributions increased \$4.3 million from FY 2017 to FY 2018. Solid Waste was moved to the General Fund in FY 2018 causing a \$22.7 million increase in charges for services. Plumbing and electrical revenue dropped by \$0.1 million in FY 2018 lowering the charges for services. Community Development grant revenue decreased by \$0.8 million. Developers contributed \$13.6 million in donated streets in FY2018, a \$3.9 million increase from FY 2017.
  - Property tax revenue increased from \$86.3 million in FY 2017 to \$89.6 million in FY 2018. The property tax rate stayed flat from \$0.53802 per \$100 of assessed value in 2017 to \$0.53802 per 100 of assessed value in 2018. Taxable assessed values increased from \$15.9 billion in 2017 to \$16.8 billion in 2018, as real property valuations continued to climb.
  - Sales tax revenue increased from \$70.4 million in FY 2017 to \$73.6 million in FY 2018. Since FY 2008, Lubbock had experienced a steady increase in sales tax revenue averaging a 4.25 percent increase annually in that time frame. In FY 2018, Lubbock experienced a 4.5 percent increase in sales tax.
  - Franchise fees increased from \$9.1 million in FY 2017 to \$9.3 million in FY 2018. The slight increase is due to collections on past due amounts.
- Total expenses increased \$15.7 million, from \$244.1 million to \$259.8 million in FY 2018.
  - Employee compensation decreased overall due to all employees paying a portion of their health and dental benefits in FY 2018. The Texas Municipal Retirement System (TMRS) contribution rate increased slightly from 17.95 percent in FY 2017 to 18.05 percent in FY 2018 and the Lubbock Fire Pension Fund rate increased from 21.72 percent in FY 2017 to 21.81 percent in FY 2018.
  - Solid Waste was moved under Governmental Activities in FY 2018 from Business-Type Activities. The move caused a \$16.8 million increase in expenses.
  - Fire Department expenses decreased \$0.3 million to \$61.1 million in FY 2018. The GASB 68 pension expense of the fire department decreased by \$1.1 million in FY 2018. The salary and benefit cost increased by \$0.9 while the maintenance and other charges decreased slightly.
  - Police services decreased \$1.8 million to \$67.8 million in FY 2018. The GASB 68 pension expense of the police department decreased by \$2.6 million in FY 2018. Police salary and benefit expenses increased by \$1.1 million due to overtime expenses. Maintenance operating expenses increased slightly by \$0.7 million in FY 2018.
  - Cultural and recreation decreased by \$1.2 million to \$18.9 million in FY 2018. Cultural and recreation salary and benefit and maintenance expenses decreased by \$0.5 million in FY 2018. Mowing services and chemical supplies expenses decreased due to drought and wind conditions in FY 2018. Electric utilities expense decreased due to relocation of Parks Maintenance Department.
- Transfers from business-type activities during FY 2018 increased governmental activities' net position by \$40.1 million. During the prior fiscal year, the transfers increased governmental activities' net position by \$35.0 million. Transfers from Lubbock Power and Light to the general fund increased by \$3.7 million in FY 2018. Transfers from storm water to the general fund increased by \$0.4 million in FY 2018.

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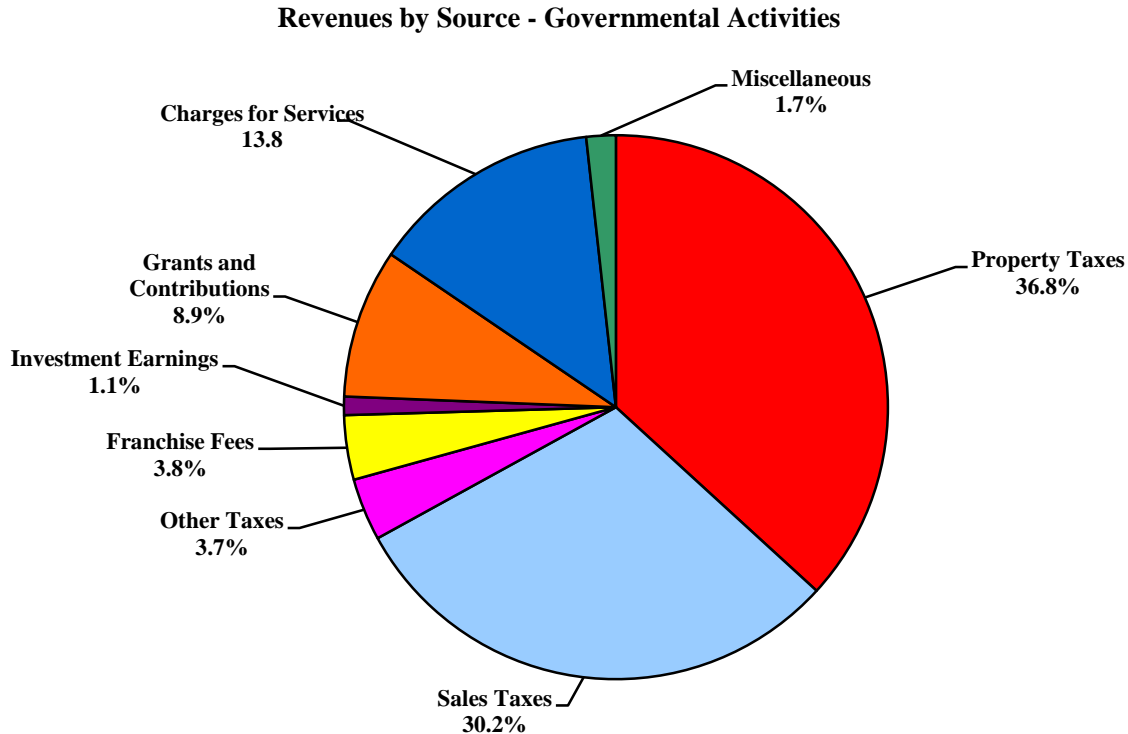
- Net transfers from business-type activities included payments in lieu of taxes, franchise fees, and indirect costs of operations for centralized services such as payroll and purchasing to governmental activities.

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



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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 \$461.3 million, compared to \$466.2 million in FY 2017, a decrease of \$4.9 million. Key elements of the revenue decrease from operations include:

- Charges for services for business-type activities totaled \$427.0 million in FY 2018, a decrease of \$11.2 million from the prior year.
  - Electric operations, which include Lubbock Power & Light and West Texas Municipal Power Authority, totaled \$246.9 million in FY 2018, a decrease of \$5.2 million. The operating revenue decrease was driven by a \$4.7 million decrease in general consumers' metered revenue. These revenues were down due to lower PPRF rates related to reduced purchased power costs. A decrease in fees and charges totaling \$0.9 million was due to less revenue from reconnect fees, payment arrangement setups and lower work orders related to new construction.
  - Water/Wastewater operations totaled \$134.3 million in FY 2018, an increase of \$11.5 million. Average daily water usage was 34.6 million gallons for FY 2018, up from 32.4 million gallons in FY 2017. Water charges for services increased from \$81.1 million in FY 2017 to \$86.5 million in FY 2018. Wastewater charges for services increased from \$42.3 million in FY 2017 to \$47.8 million in FY 2018 due to volume rates increasing from \$3.17 to \$3.71 in FY 2018.
  - Storm Water Fund operations totaled \$26.4 million, an increase of \$0.9 million. The slight increase was due to new construction in FY 2018.
- Operating grants, capital grants and contributions produced \$24.8 million in revenue for business-type activities during FY 2018, an increase of \$1.6 million from the prior year. The increase is related to

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Water/Wastewater capital grants and contributions, which increased from \$6.0 million in FY 2017 to \$12.6 million in FY 2018. Airport had two large runway projects wrap up, so capital grants and contributions decreased from \$5.8 million in FY 2017 to \$0.4 in FY 2018.

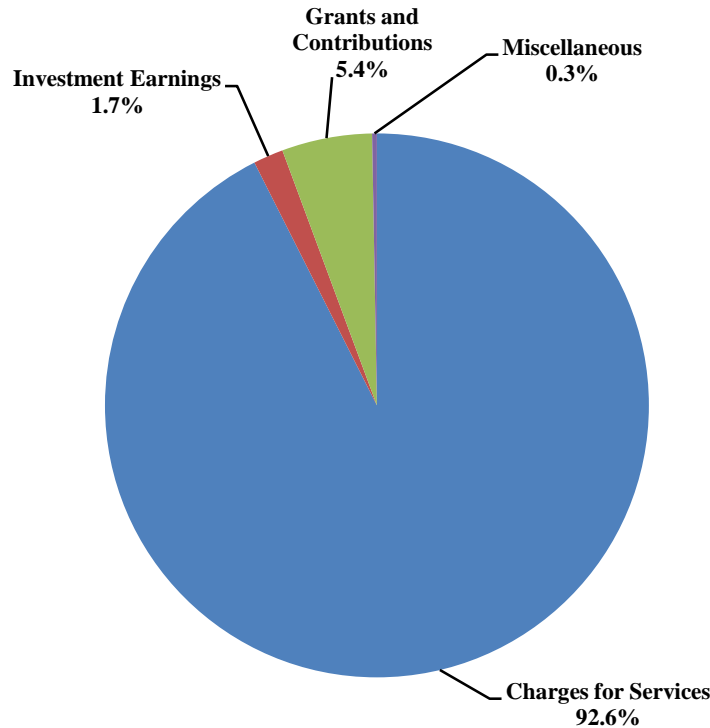
Expenses for business-type activities were \$360.9 million in FY 2018, a decrease of \$15.4 million.

- Electric operating expenses were \$218.0 million, a decrease of \$6.8 million from the prior year. The primary operating expenses contributing to the decrease included a \$7.4 million decrease in the purchase of fuel and power. Other services and charges increased by \$1.2 million which was largely a result of one-time system costs associated with the installation of the new billing and payment solution as well as one-time trailing charges related to the old billing and payment solution, totaling just under \$1.0 million. Depreciation and amortization expense increased \$0.3 million in FY 2018 as a result of increased depreciable capital assets relative to FY 2017. Interest and debt-related expense increased from FY 2017 in an amount totaling \$1.5 million due to higher bond interest payments and bond issuance costs associated with the 2018 issuance.
- Expenses in the Water/Wastewater Fund were \$94.7 million in FY 2018, up \$9.9 million from FY 2017. Water expenses remained steady as other services and charges decreased by \$1.0 million in FY 2018 while interest expense went up \$0.4 million. Wastewater supplies and other services and charges increased by \$0.4 million and \$1.3 million in FY 2018. A large decrease in capital interest was due to Wastewater assets being in use or ready for their intended use in FY 2018. As a result, interest expense increased from \$14.1 million in FY 2017 to \$22.3 million in FY 2018. Personnel services also decreased \$0.2 million in FY 2018.
- Expenses in the Storm Water Fund were \$11.7 million in FY 2018, a decrease of \$0.2 million from the prior year. Personnel cost decreased by \$0.4 million in FY 2018 to \$1.9 million. The decrease was because of vacancy savings in positions along with benefits savings due to employees paying a portion of their benefits in FY 2018. Billing office expense increased \$0.1 million in FY 2018 from FY 2017.
- Expenses for transit, airport, civic centers, cemetery, and Lake Alan Henry were \$36.6 million, a \$1.1 million increase from FY 2017. Transit Fund expenses increased by \$0.3 million in FY 2018 to \$13.6 million. Transit other services and charges increased by \$0.2 million in FY 2018 and depreciation expense increased by \$0.1 million as well. Airport expenses increased by \$1.1 million in FY 2018 to \$17.9 million. Airport depreciation increased by \$1.5 million in FY 2018 while personnel services and other services and charges decreased slightly. Civic centers expenses decreased by \$0.2 million in FY 2018 and Cemetery expenses decreased from \$0.8 million in FY 2017 to \$0.6 million in FY 2018. Personnel services decreased by \$0.1 million due to vacancies and employees paying a portion of their benefits for the first time in FY 2018.

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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, 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 \$164.7 million, compared to \$152.1 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 2018, the General Fund had \$48.0 million unassigned fund balance compared to \$37.5 million unassigned fund balance in FY 2017. This is 29.1 percent of the ending governmental fund balance, compared to 24.7 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 27.7 percent of total General Fund revenues compared to 27.1 percent of total General Fund

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revenue in the prior year. Total fund balance represented 30.7 percent of total General Fund revenues compared to 28.6 percent of total General Fund revenue in the prior year.

The Governmental Capital Project Fund had a decrease in fund balance of \$8.4 million in FY 2018. Large outlay expenditures in projects that were financed with previous year debt caused the drop in fund balance to \$64.1 million. Long term debt of \$9.0 million was issued in FY 2018 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, 2018 and 2017 are as follows with amounts presented in thousands:

	<b>2018</b>	<b>2017</b>
LP&L	\$ 46,792	\$ 48,257
Water/Wastewater Fund	35,212	33,569
WTMPA	1,054	(281)
Storm Water	5,294	5,077
	\$ 88,352	\$ 86,622

The LP&L Fund unrestricted net position increased by \$1.5 million, compared to an increase of \$0.5 million in the prior year. Due to the adoption of GASB Statement No. 75, the FY 2017 net position was restated because of a change in accounting principle that required LP&L to eliminate the Net OPEB Obligation of \$9.4 million and then make a prior period adjustment to record the OPEB Liability of \$16.9 million. Both of these adjustments were netted against net position, causing a total prior period adjustment of \$7.5 million. FY 2018 net position before contributions and transfers of \$31.7 million was \$3.9 million higher than in FY 2017. This was due to a \$6.6 million decrease in operating expenses and a \$4.7 million decrease in operating revenues. The main operating expenses contributing to the \$6.6 million decrease included the \$7.4 million decrease in the purchase of fuel and power, and a \$1.2 million increase in other services and charges cost. The \$4.7 million operating revenue decrease was driven by the decrease in general consumers' metered revenues and slight decrease in other revenues related to lower meter reconnect fees, payment arrangements, and lower outside work orders due to new construction.

The Water/Wastewater Fund unrestricted net position increased by \$1.6 million compared to a decrease of \$1.0 million in the prior year. The adoption of GASB Statement No. 75 caused a prior period adjustment of \$5.5 million that decreased unrestricted net position. Revenues increased by \$11.5 million in FY 2018 due to an increase in average daily water consumption from 32.4 million gallons in FY 2017 to 34.6 million gallons in FY 2018. Wastewater volume rates increased from \$3.17 in FY 2017 to \$3.71 in FY 2018. A large decrease in capital interest was due to Wastewater assets being in use or ready for their intended use in FY 2018. As a result, interest expense increased from \$14.1 million in FY 2017 to \$22.3 million in FY 2018. Other services and charges expense decreased in Water by \$1.0 million in FY 2018 while Wastewater other services and charges increased by \$1.3 million due to the NW Water Reclamation Plant being mostly complete in FY 2018.

The WTMPA Fund unrestricted net position increased by \$1.3 million compared to an increase of \$1.2 million during the prior fiscal year. Operating revenue decreased by \$7.5 million in FY 2018 to \$159.6 million. Operating expenses decreased by \$7.4 million in FY 2018 to \$160.0 million. The decrease in revenue and expense was related to the decrease in fuel and power cost.



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The Storm Water Fund unrestricted net position increased by \$0.2 million compared to a \$0.8 million increase in the prior fiscal year. Revenues increased by \$0.9 million in comparison to FY 2017. Personnel cost decreased by \$0.3 million in FY 2018 to \$1.9 million. The decrease was because of vacancy savings in positions along with benefits savings due to employees paying a portion of their benefits in FY 2018. This was offset by the adoption of GASB Statement No. 75, which required a prior period adjustment of \$0.9 million decreasing net position.

**General Fund Budgetary Highlights**

The Adopted Operating Budget for the General Fund, including transfers, totaled \$205.7 million.

The final adopted budget revenue for FY 2018, including transfers in, totaled \$206.1 million. The only budget change request (BCR) made was to increase General Fund cash by \$405,191 due to the Storm Water Utility Fee Restructure project being closed. The cash was not needed to complete the project. Actual revenue was \$217.5 million. Revenue and transfers-in in the General Fund were more than budget by \$11.4 million. The Solid Waste Fund was moved to the General Fund which caused a \$10.0 million transfer. The City's sales tax revenue was \$2.1 million over budget. Interest earnings were \$0.4 million over budget and franchise fees were over budget by \$0.5 million. These were offset by the transfer from LP&L being \$1.7 million less than budget.

The original operating expenditure budget for the General Fund, including transfers out, totaled \$212.9 million. An amendment was passed to carry forward balances not used in FY 17 in the amount of \$0.1 million for equipment in Solid Waste and a feasibility study that begun in FY 17 but was not complete. The final General Fund expenditure budget totaled \$213.0 million.

The City ended the fiscal year with expenditures and transfers out totaling \$211.8 million, \$1.1 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, employees are paying for a portion of their health benefits which caused expenses to decrease overall. Fuel prices and electric utility costs were lower than anticipated which affected all areas. City Secretary was under budget by \$0.5 million due to no run-off elections needed in FY 18. Parks was under budget by \$1.2 million due to lower compensation and benefits as stated above, lower pesticide expense, and also due to lower mowing contract expenses because of drought conditions.

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, 2018 totaled \$1.99 billion, a \$57.3 million increase over the prior fiscal year's balance of \$1.93 billion. The investment in capital assets includes land, buildings and improvements, equipment, construction in progress, and infrastructure.

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

	Governmental Activities		Business- type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Land	\$ 28,839	\$ 25,332	\$ 61,329	\$ 57,679	\$ 90,168	\$ 83,011
Electric non-depreciable Buildings	-	-	17,069	16,807	17,069	16,807
Improvements other than buildings	38,956	35,148	140,715	99,598	179,671	134,746
Machinery and equipment	304,392	286,287	968,388	856,358	1,272,780	1,142,645
Electric depreciable	58,496	45,302	93,079	75,932	151,575	121,234
Construction in progress	-	-	191,315	196,458	191,315	196,458
Total	37,645	30,308	50,079	207,722	87,724	238,030
	<u>\$ 468,328</u>	<u>\$ 422,377</u>	<u>\$ 1,521,974</u>	<u>\$ 1,510,554</u>	<u>\$ 1,990,302</u>	<u>\$ 1,932,931</u>

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

- New Emergency Operation Center located at Lubbock Fire Complex, totaling \$1.8 million
- LP&L upgrades to Chalker Substation capacity, totaling \$7.7 million
- Construction of storm water infrastructure from Maxey Park to Canyon Lakes, totaling \$17.0 million
- Construction work on a new Northwest Water Reclamation Plant, totaling \$10.1 million
- Water Pump Station #10 located at 82<sup>nd</sup>/Memphis constructed improvements totaling \$7.6 million
- Citizens Tower that will serve as the new city hall, totaling \$16.9 million

At the end of the fiscal year, the City had construction commitments of \$302.4 million. LP&L has \$34.8 million remaining commitments for a new customer information system. The new system will integrate technologies and innovative services such as advanced meters, communication networks, and data management systems. The municipal facilities replacements project has \$37.7 million in commitments. The Citizens Tower and new police station fall under this municipal facilities replacement project. The airport has \$26.2 million in commitments for a remodel of the terminal.

Additional information about the City's capital assets can be found on pages 78-82 of the CAFR.

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

	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
General obligation bonds	\$ 344,584	\$ 328,974	\$ 656,626	\$ 718,321	\$ 1,001,210	\$ 1,047,295
Revenue and contract bonds	-	-	210,542	132,469	210,542	132,469
Capital Lease Obligation	11,351	15,615	2,653	14,321	14,004	29,936
Total	<u>\$ 355,935</u>	<u>\$ 344,589</u>	<u>\$ 869,821</u>	<u>\$ 865,111</u>	<u>\$ 1,225,756</u>	<u>\$ 1,209,700</u>

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 2018 interest and sinking fund tax rate per \$100 of assessed valuation was \$0.12662, which is significantly below the maximum allowable tax rate.

As of September 30, 2018, the City’s total outstanding debt has increased by \$16.1 million, or 1.3 percent from the prior fiscal year. The increase in outstanding debt is attributed to the issuance of \$236.6 million in debt, offset by the payment of scheduled principal payments totaling \$101.6 million and refunded debt of \$118.9 million.

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

- \$18.5 million Tax and Waterworks System Surplus Revenue Certificates of Obligation, Series 2018A (Certificates), with interest rates ranging from 3.00 percent to 5.00 percent. The Certificates were issued at a premium of \$2,105,259 and incurred issuance cost of \$210,259. The \$20,640,259 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) purchase of computing assets for the Secondary Data Center; (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; and (iii) 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.
- \$14.7 million Tax and Waterworks System Surplus Revenue Certificates of Obligation, Series 2018B (Certificates), with interest rates ranging from 2.30 percent to 4.06 percent. The Certificates were issued at par and incurred issuance cost of \$175,000. The \$14,675,000 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) construction, renovations and improvements to the Lubbock Preston Smith International Airport facilities, including terminal building remodeling and construction of a consolidated rental car parking facility; and (ii) payment of professional services of attorneys, financial

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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.

- \$93.93 million Electric Light and Power System Revenue System Bonds, Series 2018 (Bonds), with interest rates from 4.00 percent to 5.00 percent. The Bonds were issued at a premium of \$12,858,194 and incurred issuance costs of \$942,947. \$106,783,194 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.
- \$13.3 million Tax Note, Series 2018 - The proceeds were used for the purpose of providing funds to pay contractual obligations incurred or to be incurred (i) for the purchase of the Property, consisting of: materials, supplies, equipment and machinery for the City's Citibus, Fire, Public Works Streets and Solid Waste Management departments; and (ii) to pay the costs of issuance related thereto.
- \$96.2 million General Obligation Refunding, Series 2018 - 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 \$104.7 million in outstanding debt, which resulted in a decrease of \$4.9 million in total debt service requirements.

In March 2018, 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 96-102 of the CAFR.

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

- In September 2018, the average unemployment rate for the Lubbock area was 3.0 percent, up from 2.9 percent in September of the previous year. The rate compares favorably to the State's unemployment rate of 3.7 percent and the national rate of 3.6 percent for September 2018.
- Taxable retail sales tax was \$73.6 million in FY 2018 compared to \$70.4 million in FY 2017.
- The total number of new residential permits through September 2018 decreased 22.6 percent from 2017 levels, and valuation amounts were \$227.4 million which is 45.5 percent lower than the same time period in 2017.
- Hotel occupancy tax receipts increased to \$7.4 million in FY 2018 compared to \$7.0 million in FY 2017.

The following factors were considered in preparing the City's budget for FY 2019.

- The City has adopted an increased tax rate of 54.802 cents per \$100 valuation for FY 2019. This is a 1.0 cent increase from FY 18. The tax rate for debt service increased from 12.662 cents to

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13.662 cents per \$100 valuation. The Maintenance and Operations rate remains the same at 38.825 cents per \$100 valuation. The property tax rate per \$100 valuation is broken down as follows: General Fund 38.825 cents; Debt Service Fund 13.662 cents; and Economic Development Fund 2.315 cents. Property tax revenues are expected to increase by \$5.5 million for FY 2019 of which \$2.0 million is new property on the roll.

- Sales tax revenues in FY 2019 are expected to increase 3.0 percent compared to the FY 2018 re-forecasted amount.
- Payments in lieu of franchise fees are expected to increase 1.8 percent. One hundred percent of franchise fees are recorded in the General Fund as was implemented with the FY 2018 Adopted Budget. A transfer to the appropriate fund such as Gateway is included as part of the expenditures. 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 \$0.6 million, due to an increase of 1.0 cent to the property tax rate.
- Fees for services are expected to increase by \$0.9 million in FY 2019. This is due to Solid Waste increasing tipping fees by three dollars and the residential rate by 75 cents. Other significant changes to fees for services include increases and additions to fire inspection fees as well as increase to swimming pool admission, instruction, and rental rates.
- Compensation costs are expected to increase 5.8 percent in FY 2019. Increases in Police and Fire compensation total \$3.5 million. Positions in the General Fund increased by 50, with the addition of 29 coming during the Engineering reorganization and two Marshal positions coming from a Special Revenue fund in Municipal Court. Nineteen additional positions were added to critical areas in the General Fund to address the needs of the City.
- Health insurance is projected to increase \$0.4 million or 2.7 percent as a result of the increase in staff. The health insurance plan costs remained the same.
- Charges for computer and other equipment increased 69.2 percent or \$0.2 million due to funding new mobile and web applications to replace current 311 online services for 311 Call Center, new tablets and software for Animal Services, new dumpsters in residential collection, and new radio lapel mics in fire suppression.
- Motor vehicle maintenance cost is expected to increase 8.3 percent, or \$0.4 million in FY 2019. The increase is due to expired warranties on several pieces of heavy equipment.
- The transfer to the capital program totals \$10.3 million this year. Fifteen capital projects are cash funded in FY 19. Seven projects are related to the ongoing maintenance on City facilities. A project has been approved for comprehensive plan implementation and one for city council initiatives. Parks has three projects for improvements to parks. The Adopted Budget also includes funding the street maintenance project solely with cash. The other projects for public works are for backup power at signalized intersections and ADA ramps and sidewalks.

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- The monthly Wastewater Fund base rate will increase 3.1 percent from \$16.00 to \$16.50 in FY 2019. There is no rate increase proposed for Water. Revenue is expected to increase \$1.0 million or .8 percent from FY 18.

**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, 2018**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 4,052,028	\$ 7,763,566	\$ 11,815,594	\$ 16,682,270
Investments	93,166,739	167,323,738	260,490,477	12,135,473
Receivables (net of allowance for uncollectibles)	18,914,188	53,256,875	72,171,063	2,301,141
Internal balances	2,139,945	(2,139,945)	-	-
Due from other governments	2,020,342	1,045,160	3,065,502	300,127
Due from others	2,520,954	217,822	2,738,776	-
Inventories	270,959	3,434,739	3,705,698	308,066
Prepaid expenses	471,930	1,649,798	2,121,728	18,652
Restricted assets:				
Cash and cash equivalents	-	-	-	2,262,276
Investments	85,214,444	237,584,043	322,798,487	-
Leases receivable	400,075	-	400,075	-
Investment in property	-	-	-	187,028
Mortgage receivables	-	-	-	3,394,507
Land Inventory	-	-	-	3,245,662
Capital assets (net of accumulated depreciation):				
Non-depreciable	66,484,143	128,475,882	194,960,025	3,691,286
Depreciable	401,843,772	1,393,498,155	1,795,341,927	119,165
Total assets	<u>677,499,519</u>	<u>1,992,109,833</u>	<u>2,669,609,352</u>	<u>44,645,653</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows from pensions	27,625,613	4,487,368	32,112,981	-
Deferred outflow from goodwill	-	531,114	531,114	-
Deferred outflow from OPEB	6,332,073	2,707,665	9,039,738	-
Deferred charge on refunding	5,396,625	12,700,551	18,097,176	-
Total deferred outflows of resources	<u>39,354,311</u>	<u>20,426,698</u>	<u>59,781,009</u>	<u>-</u>
<b>LIABILITIES</b>				
Accounts payable	11,267,781	45,981,776	57,249,557	2,177,534
Accrued liabilities	5,855,408	5,006,792	10,862,200	127,087
Accrued interest payable	1,913,893	5,736,620	7,650,513	75,852
Customer deposits	-	4,972,897	4,972,897	-
Unearned revenue	4,450,565	3,220	4,453,785	380,862
Noncurrent liabilities due within one year:				
Compensated absences	10,561,944	4,512,335	15,074,279	-
Accrued insurance claims	1,879,494	1,434,338	3,313,832	-
Leases payable	1,947,242	510,845	2,458,087	4,718,829
Bonds and notes payable	36,032,684	69,629,308	105,661,992	24,000
Noncurrent liabilities due in more than one year:				
Compensated absences	18,739,899	1,179,108	19,919,007	-
Post-employment benefits	98,670,904	42,192,811	140,863,715	-
Net pension liability	141,578,652	29,223,691	170,802,343	-
Accrued insurance claims	206,370	2,363,605	2,569,975	-
Landfill closure and postclosure care	5,879,342	-	5,879,342	-
Rebatable Arbitrage	-	50,917	50,917	-
Leases payable	9,404,010	2,142,222	11,546,232	6,078,000
Bonds and notes payable	339,964,394	873,349,535	1,213,313,929	2,033,000
Total liabilities	<u>688,352,582</u>	<u>1,088,290,020</u>	<u>1,776,642,602</u>	<u>15,615,164</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows from pensions	12,932,827	5,940,015	18,872,842	-
Total deferred inflows of resources	<u>12,932,827</u>	<u>5,940,015</u>	<u>18,872,842</u>	<u>-</u>
<b>NET POSITION</b>				
Net investment in capital assets	152,969,002	764,280,101	917,249,103	3,810,451
Restricted for:				
Passenger facility charges	-	4,994,123	4,994,123	-
Debt service	10,427,738	45,689,128	56,116,866	-
Special revenue	12,168,893	-	12,168,893	3,581,535
Primary government agreement	-	-	-	100,000
Unrestricted	(159,997,212)	103,343,144	(56,654,068)	21,538,503
Total net position	<u>\$ 15,568,421</u>	<u>\$ 918,306,496</u>	<u>\$ 933,874,917</u>	<u>\$ 29,030,489</u>

See accompanying Notes to Basic Financial Statements

**City of Lubbock, Texas**  
**Statement of Activities**  
**For the Year Ended September 30, 2018**

	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
<b>Primary government:</b>			
Governmental activities:			
Administrative services and general government	\$ 14,854,781	25,584	\$ -
Community services	5,064,842	-	4,184,428
Cultural and recreation	18,894,418	1,344,698	226,619
Economic and business development	18,938,568	1,392,673	-
Fire	61,089,454	30,975	-
Health	5,790,308	611,915	1,003,042
Police	67,835,367	103,273	121,451
Other public safety	8,014,293	7,111,784	911,553
Streets and traffic	30,656,165	213,308	-
Solid Waste	16,820,311	22,656,887	-
Interest on long-term debt	11,857,748	-	-
Total governmental activities	<u>259,816,255</u>	<u>33,491,097</u>	<u>6,447,093</u>
Business-type activities:			
Electric	217,957,566	246,862,911	7,011
Water/Wastewater	94,690,532	134,393,703	1,166,442
Storm Water	11,658,461	26,401,167	14,051
Transit	13,613,841	5,872,405	4,073,540
Airport	17,864,799	11,640,261	3,036,300
Civic Centers	4,147,240	819,382	-
Cemetery	606,304	370,857	-
Lake Alan Henry	390,539	615,979	-
Total business-type activities	<u>360,929,282</u>	<u>426,976,665</u>	<u>8,297,344</u>
Total primary government	<u>\$ 620,745,537</u>	<u>\$ 460,467,762</u>	<u>\$ 14,744,437</u>
<b>Component units:</b>			
Urban Renewal Agency (URA)	\$ 463,357	\$ 211,958	\$ -
Civic Lubbock, Inc.	2,763,361	2,434,027	378,698
Market Lubbock, Inc.	12,119,377	93,891	236,204
Lubbock Economic Development Alliance	7,259,784	-	93,325
Vintage Township Public Facilities Corporation	151,704	-	-
Total component units	<u>\$ 22,757,583</u>	<u>\$ 2,739,876</u>	<u>\$ 708,227</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 restated			
Net position - ending			

See accompanying Notes to Basic Financial Statements



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

<b>Capital Grants and Contributions</b>	<b>Primary Government</b>			<b>Component Units</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
\$ -	\$ (14,829,197)	\$ -	\$ (14,829,197)	\$ -
-	(880,414)	-	(880,414)	-
60,804	(17,262,297)	-	(17,262,297)	-
1,787,304	(15,758,591)	-	(15,758,591)	-
-	(61,058,479)	-	(61,058,479)	-
-	(4,175,351)	-	(4,175,351)	-
264,663	(67,345,980)	-	(67,345,980)	-
-	9,044	-	9,044	-
13,039,406	(17,403,451)	-	(17,403,451)	-
-	5,836,576	-	5,836,576	-
-	(11,857,748)	-	(11,857,748)	-
<u>15,152,177</u>	<u>(204,725,888)</u>	<u>-</u>	<u>(204,725,888)</u>	<u>-</u>
690,748	-	29,603,104	29,603,104	-
12,595,493	-	53,465,106	53,465,106	-
2,792,695	-	17,549,452	17,549,452	-
-	-	(3,667,896)	(3,667,896)	-
386,826	-	(2,801,412)	(2,801,412)	-
-	-	(3,327,858)	(3,327,858)	-
-	-	(235,447)	(235,447)	-
-	-	225,440	225,440	-
<u>16,465,762</u>	<u>-</u>	<u>90,810,489</u>	<u>90,810,489</u>	<u>-</u>
<u>\$ 31,617,939</u>	<u>(204,725,888)</u>	<u>90,810,489</u>	<u>(113,915,399)</u>	<u>-</u>
\$ -	-	-	-	(251,399)
-	-	-	-	49,364
-	-	-	-	(11,789,282)
-	-	-	-	(7,166,459)
171,405	-	-	-	19,701
<u>\$ 171,405</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(19,138,075)</u>
	89,644,354	-	89,644,354	3,100,991
	73,571,504	-	73,571,504	6,130,959
	7,355,293	-	7,355,293	4,165,394
	1,662,833	-	1,662,833	-
	9,332,330	-	9,332,330	-
	2,674,797	8,241,483	10,916,280	403,327
	4,255,168	1,302,592	5,557,760	41,755
	40,130,357	(40,130,357)	-	-
	<u>228,626,636</u>	<u>(30,586,282)</u>	<u>198,040,354</u>	<u>13,842,426</u>
	23,900,748	60,224,207	84,124,955	(5,295,649)
	(8,332,327)	858,082,289	849,749,962	34,326,138
	<u>\$ 15,568,421</u>	<u>\$ 918,306,496</u>	<u>\$ 933,874,917</u>	<u>\$ 29,030,489</u>

**City of Lubbock, Texas**  
**Balance Sheet**  
**Governmental Funds**  
**September 30, 2018**

	<u>General Fund</u>	<u>Governmental Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,709,515	\$ 426,549	\$ 1,210,596	\$ 3,346,660
Investments	39,306,229	9,807,488	27,834,775	76,948,492
Taxes receivable (net)	13,547,756	-	1,524,067	15,071,823
Accounts receivable (net)	3,463,628	65,702	-	3,529,330
Interest receivable	185,811	61,979	28,457	276,247
Due from other governments	-	-	2,020,342	2,020,342
Due from others	1,670,178	-	849,255	2,519,433
Inventory	121,578	-	-	121,578
Restricted investments	5,007,610	56,640,331	22,660,692	84,308,633
Leases receivable	-	-	400,075	400,075
	<u>                  </u>	<u>                  </u>	<u>                  </u>	<u>                  </u>
Total assets	<u>\$ 65,012,305</u>	<u>\$ 67,002,049</u>	<u>\$ 56,528,259</u>	<u>\$ 188,542,613</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 4,376,747	\$ 2,703,599	\$ 2,774,575	\$ 9,854,921
Accrued liabilities	5,577,131	2,401	85,515	5,665,047
Due to other funds	-	-	1,354,833	1,354,833
Unearned revenue	254,895	181,778	4,013,892	4,450,565
	<u>                  </u>	<u>                  </u>	<u>                  </u>	<u>                  </u>
Total liabilities	<u>10,208,773</u>	<u>2,887,778</u>	<u>8,228,815</u>	<u>21,325,366</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue	1,710,519	-	822,547	2,533,066
	<u>                  </u>	<u>                  </u>	<u>                  </u>	<u>                  </u>
Total deferred inflows of resources	<u>1,710,519</u>	<u>-</u>	<u>822,547</u>	<u>2,533,066</u>
<b>FUND BALANCES</b>				
Nonspendable	121,578	-	-	121,578
Restricted	5,007,610	54,138,039	34,772,499	93,918,148
Committed	-	9,976,232	12,704,398	22,680,630
Unassigned	47,963,825	-	-	47,963,825
	<u>                  </u>	<u>                  </u>	<u>                  </u>	<u>                  </u>
Total fund balances	<u>53,093,013</u>	<u>64,114,271</u>	<u>47,476,897</u>	<u>164,684,181</u>
	<u>                  </u>	<u>                  </u>	<u>                  </u>	<u>                  </u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 65,012,305</u>	<u>\$ 67,002,049</u>	<u>\$ 56,528,259</u>	<u>\$ 188,542,613</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, 2018**

Total fund balance - governmental funds \$ 164,684,181

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. 468,327,915

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	7,509,141
General obligation bonds	15,757,849
Net book value of capital assets	(16,663,125)
Compensated absences	811,907
Post employment benefits	4,279,557
Net pension Liability	3,137,549
Deferred Inflows of Pensions	634,186
Deferred Outflows of Pensions	(476,954)
Deferred Outflows from OPEB	(274,636)
Amounts due from business-type ISF's for amounts undercharged	3,494,778

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	(344,583,509)
Capital leases payable	(11,351,252)
Closure/Post Closure	(5,879,342)
Compensated absences	(29,301,843)
Post employment benefits	(98,670,904)
Net pension liability	(141,578,652)
Accrued interest on general obligation bonds	(1,829,406)

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 \$31,413,569 and deferred charges on refunding \$5,396,625. (26,016,944)

Deferred Inflows of Pensions	(12,932,827)
Deferred Outflows of Pensions	27,625,613
Deferred Outflow from OPEB	6,332,073

Revenue earned but unavailable in the funds is deferred. 2,533,066

Net Position of governmental activities \$ 15,568,421

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, 2018**

	<u>General Fund</u>	<u>Governmental Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Taxes	\$ 129,828,610	\$ -	\$ 42,439,469	\$ 172,268,079
Franchise taxes	8,835,673	-	496,657	9,332,330
Special assessments	-	-	1,186,366	1,186,366
Fees and fines	3,119,379	-	266,228	3,385,607
Licenses and permits	2,746,803	-	-	2,746,803
Intergovernmental	603,012	162,370	6,290,949	7,056,331
Charges for services	25,798,552	-	146,607	25,945,159
Interest	710,521	1,045,814	492,893	2,249,228
IRS Build America Bond Subsidy	-	-	306,422	306,422
Miscellaneous	1,505,720	284,809	2,201,297	3,991,826
Total revenues	<u>173,148,270</u>	<u>1,492,993</u>	<u>53,826,888</u>	<u>228,468,151</u>
<b>EXPENDITURES</b>				
Current:				
Administrative services and general government	13,783,040	100,000	55,312	13,938,352
Community services	-	-	4,828,621	4,828,621
Cultural and recreation	14,287,015	326,958	85,146	14,699,119
Economic and business development	816,111	243,644	15,439,844	16,499,599
Health	4,019,992	88,517	1,177,978	5,286,487
Fire	48,973,385	167,804	117	49,141,306
Police	62,796,246	16,413	1,373,687	64,186,346
Other public safety	6,659,011	275,884	480,470	7,415,365
Streets and traffic	7,243,138	346,865	-	7,590,003
Solid waste	13,053,045	79,396	-	13,132,441
Intergovernmental	-	-	28,067	28,067
Debt service:				
Principal	14,773,745	-	28,474,997	43,248,742
Interest and other charges	655,124	33,222	14,181,284	14,869,630
Capital outlay	2,397,080	33,199,453	3,115,998	38,712,531
Total expenditures	<u>189,456,932</u>	<u>34,878,156</u>	<u>69,241,521</u>	<u>293,576,609</u>
Revenues under expenditures	<u>(16,308,662)</u>	<u>(33,385,163)</u>	<u>(15,414,633)</u>	<u>(65,108,458)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Long-term debt issued	9,768,979	9,005,000	22,945,000	41,718,979
Bond premium	-	1,030,474	3,054,292	4,084,766
Payment to the refunded bond escrow agent	-	-	(20,510,547)	(20,510,547)
Transfers in	44,337,498	16,125,081	35,907,897	96,370,476
Transfers out	<u>(24,334,333)</u>	<u>(1,169,642)</u>	<u>(18,437,964)</u>	<u>(43,941,939)</u>
Net other financing sources	<u>29,772,144</u>	<u>24,990,913</u>	<u>22,958,678</u>	<u>77,721,735</u>
Net change in fund balances	13,463,482	(8,394,250)	7,544,045	12,613,277
Fund balances - beginning of year	<u>39,629,531</u>	<u>72,508,521</u>	<u>39,932,852</u>	<u>152,070,904</u>
Fund balances - end of year	<u>\$ 53,093,013</u>	<u>\$ 64,114,271</u>	<u>\$ 47,476,897</u>	<u>\$ 164,684,181</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, 2018**

Net change in fund balances - total governmental funds	\$ 12,613,277
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 \$38,712,531 exceeded depreciation of \$38,458,681 in the current period.	253,850
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 \$41,718,979 were exceeded by debt repayments of \$31,423,412, and debt defeasance of \$19,744,688.	9,449,121
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 \$11,825,330.	11,825,330
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 \$4,084,765 exceeded deferred refunding charges of \$765,859 and amortization of \$3,264,332.	(54,574)
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	1,114,901
Post retirement benefits	(5,819,465)
Net pension liability	(7,750,473)
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.	193,074
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.	3,251,104
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.	81,775
Capital assets transactions include \$14,236,518 developer donated streets plus \$24,330,032 capital asset transfers in from business-type activities and less \$489,166 disposition of assets and use of property.	38,077,384
Solid Waste BTA Long Term Assets and Liabilities transferred into GTA	
Landfill closure and post closure care	(5,676,084)
Net Pension Liability	(5,213,263)
Leases Payable	(8,611,985)
Bonds Payable	(22,147,015)
Deferred Charge on Refunding	210,940
Deferred Outflow from Pensions	1,565,525
Deferred Inflow from Pensions	(138,140)
Compensated Absences	(598,858)
Accrued Interest Payable	(127,359)
Transfer Fleet Maintenance Net Position to Governmental Activities	1,650,609
Landfill closure and postclosure adjustment in FY 18	(203,258)
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.	(45,668)
Change in net position of governmental activities	<u>\$ 23,900,748</u>

**City of Lubbock, Texas**  
**Statement of Net Position**  
**Proprietary Funds**  
**September 30, 2018**

**Enterprise Funds**

	<b>LP&amp;L</b>	<b>Water/Waste Water</b>	<b>WTMPA</b>	<b>Storm Water</b>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 3,644,488	2,100,064	\$ 504,320	\$ 264,538
Investments	83,796,278	48,285,984	414,703	6,082,406
Accounts receivable, net	30,471,794	17,240,013	602,360	3,141,169
Interest receivable	71,840	317,512	-	33,301
Due from others	-	28,190	-	11,097
Due from other funds	-	-	11,486,903	-
Due from other governments	-	308,372	-	-
Prepaid expenses	25,000	-	-	-
Inventories	1,984,063	236,530	-	-
Total current assets	<u>119,993,463</u>	<u>68,516,665</u>	<u>13,008,286</u>	<u>9,532,511</u>
Noncurrent assets:				
Restricted investments	135,717,814	60,588,704	-	18,675,592
Prepaid expenses	1,477,776	-	-	-
	<u>137,195,590</u>	<u>60,588,704</u>	<u>-</u>	<u>18,675,592</u>
Capital assets:				
Land	-	40,075,639	-	16,073,059
Electric non-depreciable	17,068,722	-	-	-
Construction in progress	24,601,082	17,999,425	-	1,535,964
Buildings	-	155,785,840	-	64,580
Improvements other than buildings	-	995,106,673	-	191,688,885
Machinery and equipment	-	123,310,819	25,200	5,847,235
Electric depreciable	445,456,430	-	-	-
Less accumulated depreciation	(254,140,607)	(373,541,389)	(25,200)	(38,818,098)
Total capital assets	<u>232,985,627</u>	<u>958,737,007</u>	<u>-</u>	<u>176,391,625</u>
Total noncurrent assets	<u>370,181,217</u>	<u>1,019,325,711</u>	<u>-</u>	<u>195,067,217</u>
Total assets	<u>\$ 490,174,680</u>	<u>\$ 1,087,842,376</u>	<u>\$ 13,008,286</u>	<u>\$ 204,599,728</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred charge on refunding	1,003,318	8,434,701	-	3,021,154
Deferred outflow from Goodwill	531,114	-	-	-
Deferred outflows from pensions	2,488,886	1,370,070	-	156,200
Deferred outflows from OPEB	1,241,657	963,156	-	146,987
Total deferred outflows of resources	<u>5,264,975</u>	<u>10,767,927</u>	<u>-</u>	<u>3,324,341</u>

See accompanying Notes to Basic Financial Statements

**Enterprise Funds**

<b>Nonmajor Enterprise Funds</b>	<b>Total Enterprise Funds</b>	<b>Internal Service Funds</b>
\$ 673,290	\$ 7,186,700	\$ 1,282,234
15,480,708	154,060,079	29,481,906
1,330,402	52,785,738	8,408
35,594	458,247	41,270
165,180	204,467	14,876
1,954,192	13,441,095	-
736,788	1,045,160	-
147,022	172,022	471,930
810,185	3,030,778	553,342
<u>21,333,361</u>	<u>232,384,286</u>	<u>31,853,966</u>
22,601,933	237,584,043	905,811
-	1,477,776	-
<u>22,601,933</u>	<u>239,061,819</u>	<u>905,811</u>
5,179,871	61,328,569	-
-	17,068,722	-
5,942,120	50,078,591	348,090
66,978,052	222,828,472	1,691,882
205,583,186	1,392,378,744	6,048,329
51,634,876	180,818,130	25,328,100
-	445,456,430	-
<u>(181,527,971)</u>	<u>(848,053,265)</u>	<u>(16,683,632)</u>
<u>153,790,134</u>	<u>1,521,904,393</u>	<u>16,732,769</u>
<u>176,392,067</u>	<u>1,760,966,212</u>	<u>17,638,580</u>
\$ 197,725,428	\$ 1,993,350,498	\$ 49,492,546
241,378	12,700,551	-
-	531,114	-
382,824	4,397,980	566,342
297,843	2,649,643	332,658
<u>922,045</u>	<u>20,279,288</u>	<u>899,000</u>

**City of Lubbock, Texas**  
**Statement of Net Position**  
**Proprietary Funds**  
**September 30, 2018**

**Enterprise Funds**

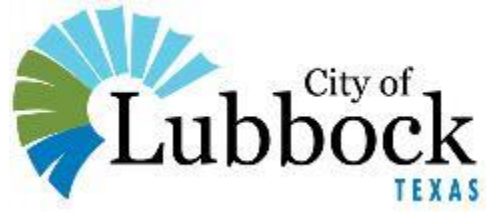
	<b>LP&amp;L</b>	<b>Water/Waste Water</b>	<b>WTMPA</b>	<b>Storm Water</b>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 18,962,113	9,017,881	\$ 11,954,331	\$ 1,635,312
Accrued liabilities	3,622,312	575,308	-	60,877
Accrued interest payable	2,471,041	2,565,875	-	458,731
Due to other funds	11,486,904	-	-	-
Customer deposits	4,552,464	285,018	-	-
Unearned revenue - other	-	-	-	-
Compensated absences	2,179,036	1,375,061	-	117,123
Accrued insurance claims	-	-	-	-
Leases payable	-	333,489	-	105,810
Bonds payable	18,555,000	41,140,702	-	7,662,161
Total current liabilities	<u>61,828,870</u>	<u>55,293,334</u>	<u>11,954,331</u>	<u>10,040,014</u>
Noncurrent liabilities:				
Accrued insurance claims	-	-	-	-
Compensated absences	629,202	397,052	-	33,820
Post employment benefits	19,348,418	15,008,586	-	2,290,466
Net pension liability	15,554,807	9,229,039	-	1,080,299
Rebatable arbitrage	-	-	-	50,917
Leases payable	-	1,528,772	-	408,201
Bonds payable	198,588,661	517,162,219	-	123,704,921
Total noncurrent liabilities	<u>234,121,088</u>	<u>543,325,668</u>	<u>-</u>	<u>127,568,624</u>
Total liabilities	<u>295,949,958</u>	<u>598,619,002</u>	<u>11,954,331</u>	<u>137,608,638</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows from pensions	<u>3,456,159</u>	<u>1,692,580</u>	<u>-</u>	<u>213,565</u>
Total deferred inflows of resources	<u>3,456,159</u>	<u>1,692,580</u>	<u>-</u>	<u>213,565</u>
<b>NET POSITION (DEFICIT)</b>				
Net investment in capital assets	128,869,898	442,604,603	-	61,309,423
Restricted for:				
Passenger facility charges	-	-	-	-
Debt service	20,372,130	20,481,855	-	3,498,207
Unrestricted	<u>46,791,510</u>	<u>35,212,263</u>	<u>1,053,955</u>	<u>5,294,236</u>
Total net position (deficit)	<u>\$ 196,033,538</u>	<u>\$ 498,298,721</u>	<u>\$ 1,053,955</u>	<u>\$ 70,101,866</u>

See accompanying Notes to Basic Financial Statements



Enterprise Funds

<u>Nonmajor Enterprise Funds</u>	<u>Total Enterprise Funds</u>	<u>Internal Service Funds</u>
\$ 4,343,234	\$ 45,912,871	\$ 1,481,765
706,861	4,965,358	231,795
240,893	5,736,540	84,567
599,360	12,086,264	-
135,415	4,972,897	-
3,220	3,220	-
813,624	4,484,844	320,145
-	-	3,313,832
65,433	504,732	6,113
<u>2,271,445</u>	<u>69,629,308</u>	<u>2,065,928</u>
<u>9,179,485</u>	<u>148,296,034</u>	<u>7,504,145</u>
-	-	2,569,975
111,095	1,171,169	527,192
4,641,209	41,288,679	5,183,689
2,797,357	28,661,502	3,699,738
-	50,917	-
174,583	2,111,556	30,666
<u>33,893,734</u>	<u>873,349,535</u>	<u>13,691,921</u>
<u>41,617,978</u>	<u>946,633,358</u>	<u>25,703,181</u>
<u>50,797,463</u>	<u>1,094,929,392</u>	<u>33,207,326</u>
<u>451,503</u>	<u>5,813,807</u>	<u>760,392</u>
<u>451,503</u>	<u>5,813,807</u>	<u>760,392</u>
131,556,615	764,340,539	1,177,280
4,994,123	4,994,123	-
1,336,936	45,689,128	663,874
<u>9,510,833</u>	<u>97,862,797</u>	<u>14,582,674</u>
<u>\$ 147,398,507</u>	<u>\$ 912,886,587</u>	<u>\$ 16,423,828</u>



**City of Lubbock, Texas**  
**Reconciliation of the Statement of Net Position - Proprietary Funds**  
**To the Statement of Net Position**  
**September 30, 2018**

Total net position - proprietary funds \$ 912,886,587

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	8,914,687
Amounts due to governmental ISF's for amounts overcharged	<u>(3,494,778)</u>
Net position of business-type activities	<u>\$ 918,306,496</u>

**City of Lubbock, Texas**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Proprietary Funds**  
**For The Year Ended September 30, 2018**

	<b>Enterprise Funds</b>			
	<b>LP&amp;L</b>	<b>Water/Waste Water</b>	<b>WTMPA</b>	<b>Storm Water</b>
<b>OPERATING REVENUES</b>				
Charges for services (net)	\$ 239,178,553	\$ 134,393,703	\$ 159,645,152	\$ 26,401,167
Total operating revenues	<u>239,178,553</u>	<u>134,393,703</u>	<u>159,645,152</u>	<u>26,401,167</u>
<b>OPERATING EXPENSES</b>				
Personnel services	19,606,822	14,544,292	-	1,944,392
Insurance and claims	-	-	-	-
Supplies	1,014,137	3,139,821	-	141,427
Materials	-	-	-	-
Maintenance	2,399,163	4,191,322	-	333,712
Purchase of fuel and power	154,924,035	-	159,391,443	-
Billing office expense	-	4,089,230	-	915,910
Other services and charges	10,321,429	18,114,781	588,799	954,481
Depreciation and amortization	17,608,182	26,729,667	-	3,951,945
Total operating expenses	<u>205,873,768</u>	<u>70,809,113</u>	<u>159,980,242</u>	<u>8,241,867</u>
Operating income (loss)	<u>33,304,785</u>	<u>63,584,590</u>	<u>(335,090)</u>	<u>18,159,300</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest earnings	1,710,341	5,496,888	6,322	412,410
Passenger facility charges/Federal grants	-	90,000	-	-
Disposition of assets	43,941	20,017	-	-
Miscellaneous	827,644	(1,427,300)	202,123	13,560
IRS Build America Bond Subsidy	7,011	1,076,442	-	14,051
Interest expense	(4,172,052)	(22,334,387)	-	(3,405,283)
Net nonoperating revenues (expenses)	<u>(1,583,115)</u>	<u>(17,078,340)</u>	<u>208,445</u>	<u>(2,965,262)</u>
Income (loss) before contributions and transfers	31,721,670	46,506,250	(126,645)	15,194,038
Capital contributions/grants	300,281	12,595,493	-	2,792,695
Transfers in	1,306,808	148,832	1,461,701	-
Transfers out	(18,348,033)	(17,549,851)	-	(8,732,964)
Change in net position (deficit)	<u>14,980,726</u>	<u>41,700,724</u>	<u>1,335,056</u>	<u>9,253,769</u>
Total net position - beginning of year, as restated	<u>181,052,812</u>	<u>456,597,997</u>	<u>(281,101)</u>	<u>60,848,097</u>
Total net position (deficit) - end of year	<u>\$ 196,033,538</u>	<u>\$ 498,298,721</u>	<u>\$ 1,053,955</u>	<u>\$ 70,101,866</u>

See accompanying Notes to Basic Financial Statements.

**Enterprise Funds**

<b>Nonmajor Enterprise Funds</b>	<b>Total Enterprise Funds</b>	<b>Internal Service Funds</b>
\$ 19,318,884	\$ 578,937,459	\$ 62,488,551
<u>19,318,884</u>	<u>578,937,459</u>	<u>62,488,551</u>
13,331,919	49,427,425	6,350,942
-	-	33,385,792
1,801,592	6,096,977	246,613
-	-	7,275,555
2,792,926	9,717,123	8,450,877
-	314,315,478	-
-	5,005,140	-
6,214,096	36,193,586	4,092,538
11,462,814	59,752,608	3,047,986
<u>35,603,347</u>	<u>480,508,337</u>	<u>62,850,303</u>
<u>(16,284,463)</u>	<u>98,429,122</u>	<u>(361,752)</u>
456,689	8,082,650	584,402
7,109,840	7,199,840	-
6,868	70,826	655,162
16,951,808	16,567,835	172,859
-	1,097,504	-
<u>(974,980)</u>	<u>(30,886,702)</u>	<u>(207,570)</u>
<u>23,550,225</u>	<u>2,131,953</u>	<u>1,204,853</u>
7,265,762	100,561,075	843,101
386,826	16,075,295	74,985
6,073,459	8,990,800	2,387,380
<u>(19,060,919)</u>	<u>(63,691,767)</u>	<u>(114,950)</u>
<u>(5,334,872)</u>	<u>61,935,403</u>	<u>3,190,516</u>
<u>152,733,379</u>	<u>850,951,184</u>	<u>13,233,312</u>
<u>\$ 147,398,507</u>	<u>\$ 912,886,587</u>	<u>\$ 16,423,828</u>



**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, 2018**

Net change in fund net position - total enterprise funds	\$ 61,935,403
Amounts reported for business-type activities in the statement of activities are different because:	
Transfer Fleet Maintenance Net Position to Governmental Activities	(1,650,609)
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.	<u>(60,587)</u>
Change in net position of business-type activities	<u><u>\$ 60,224,207</u></u>

**City Of Lubbock, Texas**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended September 30, 2018**

**Enterprise Funds**

	<u>LP&amp;L</u>	<u>Water/ Wastewater</u>	<u>WTMPA</u>	<u>Storm Water</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 242,644,414	\$ 130,773,574	\$ 163,137,224	\$ 25,896,910
Receipts from interfund services	-	-	-	-
Payments to suppliers	(156,862,815)	(36,424,050)	(164,729,088)	(5,227,693)
Payments to employees	(19,606,821)	(15,119,594)	-	(2,005,273)
Other receipts (payments)	<u>1,764,800</u>	<u>(260,858)</u>	<u>202,123</u>	<u>27,610</u>
Net cash provided (used) by operating activities	<u>67,939,578</u>	<u>78,969,072</u>	<u>(1,389,741)</u>	<u>18,691,554</u>
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Transfers in from other funds	1,306,808	148,832	1,461,701	-
Transfers out to other funds	(18,348,033)	(17,549,851)	-	(8,732,964)
Short-term interfund borrowings	-	-	-	-
Operating grants	-	-	-	-
Net cash provided (used) by noncapital and related financing activities	<u>(17,041,225)</u>	<u>(17,401,019)</u>	<u>1,461,701</u>	<u>(8,732,964)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchases of capital assets	(29,380,699)	(31,144,193)	-	(16,653,435)
Sale of capital assets	246,471	82,998	-	31,033
Principal paid on capital leases	-	(1,726,719)	-	(1,037,186)
Principal paid on bonds	(15,917,078)	(41,320,928)	-	(7,495,950)
Issuance of bonds	106,807,292	4,573,674	-	695,381
Bond issuance costs	(20,055)	(3,354,542)	-	(38,121)
Interest paid on bonds and capital leases	(5,193,389)	(27,499,680)	-	(3,808,464)
Payment of rebatable arbitrage	-	-	-	50,917
Capital grants and contributions	-	3,367,119	-	-
Net cash provided (used) by capital and related financing activities	<u>56,542,542</u>	<u>(97,022,271)</u>	<u>-</u>	<u>(28,255,825)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sales and maturities of investments	-	39,640,664	-	20,153,111
Purchase of investments	(109,624,117)	(10,257,312)	(6,321)	(2,332,503)
Interest earnings on cash and investments	<u>1,678,979</u>	<u>5,403,152</u>	<u>6,322</u>	<u>400,972</u>
Net cash provided (used) by investing activities	<u>(107,945,138)</u>	<u>34,786,504</u>	<u>1</u>	<u>18,221,580</u>
Net increase (decrease) in cash and cash equivalents	(504,243)	(667,714)	71,961	(75,655)
Cash and cash equivalents - beginning of year	<u>4,148,731</u>	<u>2,767,778</u>	<u>432,359</u>	<u>340,193</u>
Cash and cash equivalents - end of year	<u>\$ 3,644,488</u>	<u>\$ 2,100,064</u>	<u>\$ 504,320</u>	<u>\$ 264,538</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>				
Operating income (loss)	\$ 33,304,785	\$ 63,584,590	\$ (335,090)	\$ 18,159,300
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	17,608,182	26,729,667	-	3,951,945
Other income (expense)	1,764,800	(260,858)	202,123	27,610
Change in current assets and liabilities:				
Accounts receivable	3,465,861	(3,620,128)	156,096	(504,257)
Inventory	(113,868)	(87,173)	-	-
Prepaid expenses	-	-	-	-
Due from other governments	-	44,413	-	-
Accounts payable	17,430,505	(8,080,807)	(4,748,846)	(3,016,788)
Due to/from other funds	(3,335,975)	(285,800)	3,335,976	(11,097)
Other accrued expenses	(2,539,983)	37,436	-	(41,762)
Customer deposits	(110,899)	6,180	-	-
Change in compensated absences and retirement benefits	466,170	901,552	-	126,603
Net cash provided (used) by operating activities	<u>\$ 67,939,578</u>	<u>\$ 78,969,072</u>	<u>\$ (1,389,741)</u>	<u>\$ 18,691,554</u>
<b>Supplemental cash flow information:</b>				
Noncash capital contributions and other charges	\$ 7,239,839	\$ 9,228,374	\$ -	\$ 2,792,695

See accompanying Notes to Basic Financial Statements.



<b>Enterprise Funds</b>		
<b>Nonmajor Enterprise Funds</b>	<b>Totals</b>	<b>Internal Service Funds</b>
\$ 21,759,456	\$ 584,211,578	\$ 61,608,703
-	-	2,249,018
(17,145,966)	(380,389,612)	(55,210,005)
(13,502,848)	(50,234,536)	(6,035,071)
<u>16,951,808</u>	<u>18,685,483</u>	<u>172,859</u>
<u>8,062,450</u>	<u>172,272,913</u>	<u>2,785,504</u>
6,073,459	8,990,800	2,387,380
(19,060,919)	(63,691,767)	(114,950)
(1,119,515)	(1,119,515)	-
<u>7,109,841</u>	<u>7,109,841</u>	<u>-</u>
<u>(6,997,134)</u>	<u>(48,710,641)</u>	<u>2,272,430</u>
(8,557,871)	(85,736,198)	(8,799,899)
16,914	377,416	770,866
(5,783,349)	(8,547,254)	(1,101,015)
(1,689,900)	(66,423,856)	(1,302,912)
15,951,519	128,027,866	5,342,613
(117,248)	(3,529,966)	542,029
(1,592,792)	(38,094,325)	(462,483)
-	50,917	-
<u>386,826</u>	<u>3,753,945</u>	<u>74,985</u>
<u>(1,385,901)</u>	<u>(70,121,455)</u>	<u>(4,935,816)</u>
16,109,639	75,903,414	2,462,191
(16,979,798)	(139,200,051)	(3,686,024)
<u>446,784</u>	<u>7,936,209</u>	<u>570,235</u>
<u>(423,375)</u>	<u>(55,360,428)</u>	<u>(653,598)</u>
(743,960)	(1,919,611)	(531,480)
<u>1,417,250</u>	<u>9,106,311</u>	<u>1,813,714</u>
<u>\$ 673,290</u>	<u>\$ 7,186,700</u>	<u>\$ 1,282,234</u>
\$ (16,284,463)	\$ 98,429,122	\$ (361,752)
11,462,814	59,752,608	3,047,986
16,951,808	18,685,483	172,859
2,440,566	1,938,138	-
(4,205)	(205,246)	50,959
(138,128)	(138,128)	(471,930)
4,117,257	4,161,670	-
1,683,622	3,267,686	(1,130,729)
(1,731,147)	(2,028,043)	92,972
(481,890)	(3,026,199)	1,224,698
(44,944)	(149,663)	-
(9,908,840)	(8,414,515)	160,441
<u>\$ 8,062,450</u>	<u>\$ 172,272,913</u>	<u>\$ 2,785,504</u>
\$ 29,420,595	\$ 48,681,503	\$ -

**City of Lubbock, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2018**

**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 136.0 square miles and serves a population approximating 261,946. 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

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power exchange agreements with other entities. WTMPA provides electricity to its four member cities with the City having a 95.6 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 95.6 percent “majority in interest” vote since it accounts for 95.6 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 the City Manager, the Mayor of Lubbock, two City of Lubbock Council members, two Lubbock County elected officials, 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 Mac Davis Ln, Lubbock, Texas.

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**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 and eligible fire civilian employees. 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.

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**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.

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**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, 95.6 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.

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

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/Wastewater Fund** accounts for the activities of the City's water system and 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.

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**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 International Airport (Airport Fund), Citibus (Transit Fund), 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 tax note proceeds and related capital outlay are not budgeted. Budgetary control is maintained at the fund level. The City Manager may make administrative transfers and increases or decreases between accounts below the fund level without City Council approval. However, any transfer of funds between Funds, 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 Funds or expended. 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.

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, 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.



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**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 2018, management approved reappropriation of \$292,581 in funds as follows: Risk Management - \$159,281 and General Fund - \$133,300. 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, Federal Farm Credit Bank, Federal Agricultural Mortgage Corporation, Municipal Bonds, Commercial Paper, 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, and funds accumulated for passenger facility charges and customer facility charges.

**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.

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

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**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 \$944,851 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, changes in actuarial assumptions and investment experience and for other post-employment benefits related to benefit payments and changes in actuarial assumptions.

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, pension actuarial differences in expected and actual experience and investment experience in the proprietary and internal service funds.

For additional information on deferred outflows/inflows related to pensions, reference note III. G. Retirement Plans and note III. H. Other Post-Employment Benefits (OPEB).

**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 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

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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 10 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.

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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 \$5.3 million during the measurement period.

#### **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 November 2016, GASB issued Statement No. 83 ("GASB 83"), Certain Asset Retirement Obligations (ARO). GASB 83 establishes uniform criteria for governments to recognize and measure certain asset retirement obligations, defined as a legally enforceable liability associated with the retirement of a tangible capital asset. An ARO is recognized when the liability is incurred, which is manifested by the occurrence of both an external obligating event (such as a legally binding contract or a court judgment) and an internal obligating event (such as placing a tangible capital asset into service). A government also recognizes a deferred outflow of resources when it recognizes an ARO liability. The ARO is measured at the best estimate of the current value of outlays expected to be incurred. Additional note disclosures are required. GASB 83 is effective for the fiscal period ending September 30, 2019. The City has not determined the impact of this statement.

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In January 2017, GASB issued Statement No. 84 ("GASB 84"), Fiduciary Activities. GASB 84 establishes criteria for identifying fiduciary activities. It presents separate criteria for evaluating component units, pension and other postemployment benefit arrangements, and other fiduciary activities. GASB 84 is effective for the fiscal period ending September 30, 2020; however, implementation will have no impact on the City.

GASB Statement No. 85 ("GASB 85"), "Omnibus 2017", addressing practice issues that have arisen during implementation of other GASB standards. Implementation of GASB 85 required LP&L to reclassify its goodwill from a previous acquisition to a deferred outflow of resources.

In June 2017, GASB issued Statement No. 87 ("GASB 87"), Leases. GASB 87 requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. GASB 86 is effective for the fiscal period ending September 30, 2021. The City has not determined the impact of this statement.

In June 2018, GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements ("GASB 88"). GASB 88 specifies disclosures that should be made in the financial statements related to debt. It also provides a definition of debt so that governments know which types of liabilities should be included in those disclosures. If a government has direct borrowings or direct placements, disclosures related to these should be provided separately from disclosures related to other types of debt. The City has not determined the impact of this statement.

In December 2019, GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period ("GASB 89"). GASB 89 requires that interest costs incurred before the end of a construction period be recognized as expenses in the period in which the costs are incurred. As a result, the interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. Earlier application is encouraged. GASB 89 will be applied prospectively to interest incurred after the date of adoption. Continued review is necessary to determine the impact of this statement on the City.

**J. IMPLEMENTATION OF NEW PRONOUNCEMENT/RESTATEMENT OF NET POSITION**

In FY 2018 the City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), such as retiree health insurance. This statement established standards for measuring and recognizing OPEB liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. The effects of implementing this statement had a material effect on net position. The City recognized the total OPEB liability on the statement of net position. The total OPEB liability totaled \$140.9 million as of September 30, 2018. The City also recognized a new measure of the OPEB expense in the amount of \$12.7 million, which was different from our actuarially determined contributions (annual required contributions). Note disclosures and required supplementary information are now based on the new standard.

The statement also required that the City record a beginning deferred outflow of resources for contributions made between the measurement date of December 31, 2016 and our fiscal year-end of September 30, 2017.

As a result of the implementation of GASB Statement No. 75, the City recorded a prior period adjustment to beginning net position in proprietary fund financial statements and government-wide governmental activities. In addition, the City was required to eliminate the net OPEB obligation that was previously reported in the proprietary fund financial statements and government-wide statements with a prior period adjustment.

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The total restatement of previously reported net position is as follows:

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Government-wide net position - beginning of year</b>	<b>\$ 26,298,442</b>	<b>\$ 870,331,044</b>	<b>\$ 896,629,486</b>
<b>Implementation of New Pronouncement:</b>			
Governmental activities			
Governmental funds	(33,207,167)	-	(33,207,167)
Internal Service Funds - governmental activities	(1,423,602)	-	(1,423,602)
Business-type activities			
LP&L	-	(7,540,120)	(7,540,120)
Water/Wastewater	-	(5,525,988)	(5,525,988)
Storm Water	-	(934,127)	(934,127)
Nonmajor Enterprise Funds	-	2,148,210	2,148,210
Internal Service Funds - business type activities	-	(396,730)	(396,730)
<b>Total Implementation of New Pronouncement</b>	<b>(34,630,769)</b>	<b>(12,248,755)</b>	<b>(46,879,524)</b>
<b>Government-wide net position beginning of year, as restated</b>	<b>\$ (8,332,327)</b>	<b>\$ 858,082,289</b>	<b>\$ 849,749,962</b>

**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 2018 amended budgeted expenditures and transfers out were \$212,964,377, while actual budgetary basis expenditures and transfers out were \$211,830,612; a difference of \$1,133,765.

**NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS**

**A. DEPOSITS AND INVESTMENTS**

On September 30, 2018, the bank balance of the City's deposits was \$12,817,243. 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.

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On September 30, 2018, 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		12,067,243
		\$ 12,817,243

On September 30, 2018, the City had the following investments and maturities:

<u>Type</u>	September 30, 2018		
	Fair Value	Maturities in Years	
		Less Than 1	1-5
Federal Farm Credit Bank (FFCB)	\$ 15,130,682	\$ 3,985,119	\$ 11,145,563
Farmer Mac (FAMCA)	2,974,771	-	2,974,771
Federal Home Loan Bank (FHLB)	19,586,275	5,958,854	13,627,421
Federal Home Loan Mortgage Corporation (FHLMC)	11,227,329	1,986,601	9,240,728
Federal National Mortgage Association (FNMA)	10,978,599	-	10,978,599
Municipal Bonds	64,253,811	14,656,803	49,597,008
Commercial Paper	1,998,508	1,998,508	-
Money Market	4,545,183	4,545,183	-
State Investment Pools *	452,593,806	452,593,806	-
	\$ 583,288,964	\$ 485,724,874	\$ 97,564,090

\*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 significant ability to 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, Standard & Poor's rates TexPool AAAM. 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 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 include at all times at least one member of each such designation. The investment objective and strategy of the pool is to seek preservation

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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 that 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 are 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-administrators to LOGIC. 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 Cooperative Liquid Assets Securities System (Texas CLASS) was created specifically for use by 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. Public Trust Advisors, LLC also performs all marketing and operation functions of the portfolio. The pool is subject to the general supervision of a 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 are held to maturity and by limiting final stated 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. The City's policy also 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, 2018, 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.



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**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, 2018, the City's investments constituted the following percentages of total investments:

<u>Investment</u>	<u>Percentage</u>
State Investment Pools	77.60
Municipal Bonds	11.02
FHLB	3.36
FFCB	2.59
FHLMC	1.92
FNMA	1.88
Money Market	0.78
FAMCA	0.51
Commercial Paper	0.34

**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. The following hierarchy of three levels of inputs is 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

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**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, 2018:

<b>September 30, 2018</b>	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Investments by fair value level</b>				
Federal Farm Credit Bank (FFCB)	\$ 15,130,682	\$ -	\$ 15,130,682	\$ -
Farmer Mac (FAMCA)	2,974,771	-	2,974,771	-
Federal Home Loan Bank (FHLB)	19,586,275	-	19,586,275	-
Federal Home Loan Mortgage Corporation (FHLMC)	11,227,329	-	11,227,329	-
Federal National Mortgage Association (FNMA)	10,978,599	-	10,978,599	-
Municipal Bonds	64,253,811	-	64,253,811	-
Commercial Paper	1,998,508	-	1,998,506	-
Total investments by fair value level	<u>\$ 126,149,975</u>	<u>\$ -</u>	<u>\$ 126,149,973</u>	<u>\$ -</u>
<b>Investments measured at the net asset value</b>				
TexStar	\$ 243,802,594			
LOGIC	16,622,464			
Texas Class	173,816,186			
Total investments measured at the NAV	<u>\$ 434,241,244</u>			
<b>Investments measured at amortized cost</b>				
TexPool	\$ 18,352,562			
Money Markets	4,545,183			
Investments measured at amortized cost	<u>\$ 22,897,745</u>			
Total Investments	<u>\$ 583,288,964</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.

**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, 2018 the City had \$13,441,095 of internal financing. These balances are assessed an interest charge and are repaid over time through operations and transfers.

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

<b>Interfund Receivables: (in Thousands)</b>						
<b>Interfund Payables: (in Thousands)</b>	<b>Governmental Funds</b>			<b>Proprietary Funds</b>		<b>Totals</b>
	<b>General</b>	<b>Nonmajor Governmental</b>		<b>WTMPA</b>	<b>Nonmajor Enterprise</b>	
<b>Governmental Funds:</b>						
Nonmajor Governmental	\$ -	\$ -		\$ -	\$ -	\$ -
<b>Proprietary Funds:</b>						
LP&L	-	-		11,487	-	11,487
Nonmajor Enterprise	-	1,355		-	599	1,954
<b>Totals</b>	<b>\$ -</b>	<b>\$ 1,355</b>		<b>\$ 11,487</b>	<b>\$ 599</b>	<b>\$ 13,441</b>

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):

<b>Interfund Transfers In: (in Thousands)</b>									
<b>Interfund Transfers Out: (in Thousands)</b>	<b>Governmental Funds</b>			<b>Proprietary Funds</b>				<b>Internal Service</b>	<b>Totals</b>
	<b>General</b>	<b>Govt. Capital</b>	<b>Nonmajor Govt.</b>	<b>Electric</b>	<b>Water/Waste- water</b>	<b>WTMPA</b>	<b>Nonmajor Enterprise</b>		
<b>Governmental Funds:</b>									
General Fund	\$ -	\$ 9,121	\$ 10,800	\$ 188	\$ -	\$ -	\$ 2,847	\$ 1,378	\$ 24,334
Govt. Capital Projects	-	-	1,046	-	-	-	-	124	1,170
Nonmajor Govt.	-	7,004	8,333	-	-	-	3,101	-	18,438
<b>Proprietary Funds:</b>									
LP&L	13,789	-	3,095	-	-	1,462	-	-	18,346
Water/Wastewater	15,727	-	319	930	-	-	-	574	17,550
Stormwater	3,039	-	5,310	188	-	-	-	196	8,733
Nonmajor Enterprise	11,783	-	7,005	-	148	-	125	-	19,061
Internal Service	-	-	-	-	-	-	-	115	115
<b>Totals</b>	<b>\$44,338</b>	<b>\$16,125</b>	<b>\$ 35,908</b>	<b>\$1,306</b>	<b>\$ 148</b>	<b>\$ 1,462</b>	<b>\$ 6,073</b>	<b>\$2,387</b>	<b>\$107,747</b>

Net transfers on the GWFS amounted to \$40,130,357 from business activities to governmental-type activities.

**C. PREPAID EXPENSES**

The total prepaid expenses (noncurrent assets) of \$1,477,776 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.

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**D. GOODWILL**

The deferred outflow from goodwill of \$531,114 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, 2018, was as follows:

**Primary Government:**

**Governmental Activities**

	<b>Beginning Balances</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balances</b>
<b>Capital Assets Not Depreciated:</b>				
Land	\$ 25,331,675	\$ 3,527,891	\$ 20,452	\$ 28,839,114
Construction in Progress	30,307,710	45,038,847	37,701,528	37,645,029
Total Capital Assets Not Depreciated	<u>55,639,385</u>	<u>48,566,738</u>	<u>37,721,980</u>	<u>66,484,143</u>
<b>Capital Assets Depreciated:</b>				
Buildings	68,600,317	6,444,336	1,002,071	74,042,582
Improvements Other than Buildings	567,889,379	73,446,098	2,011,284	639,324,193
Machinery and Equipment	110,402,679	52,407,124	8,505,016	154,304,787
Total Capital Assets Depreciated	<u>746,892,375</u>	<u>132,297,558</u>	<u>11,518,371</u>	<u>867,671,562</u>
<b>Less Accumulated Depreciation:</b>				
Buildings	32,960,896	2,798,316	672,010	35,087,202
Improvements Other than Buildings	280,450,714	56,342,037	1,860,978	334,931,773
Machinery and Equipment	64,761,569	39,445,510	8,398,264	95,808,815
Total Accumulated Depreciation	<u>378,173,179</u>	<u>98,585,863</u>	<u>10,931,252</u>	<u>465,827,790</u>
Total Capital Assets Depreciated, Net	<u>368,719,196</u>	<u>33,711,695</u>	<u>587,119</u>	<u>401,843,772</u>
Governmental Activities Capital Assets, Net	<u>\$ 424,358,581</u>	<u>\$ 82,278,433</u>	<u>\$ 38,309,099</u>	<u>\$ 468,327,915</u>

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

Governmental activities:	
Administrative Services and General Government	\$ 502,038
Community Services	140,994
Cultural and Recreation Services	3,839,319
Economic and Business Development	2,054,880
Fire	2,384,381
Health	397,097
Other Public Safety	152,575
Police	2,159,058
Streets and Traffic	22,851,756
Solid Waste	3,976,583
Internal Service Funds	<u>3,038,893</u>
Total Depreciation Expense - Governmental Activities	41,497,574
Transfer in of Accumulated Depreciation - Business-Type Activities	<u>57,088,289</u>
Increase in Accumulated Depreciation - Governmental Activities	<u><u>\$ 98,585,863</u></u>

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**Business Type Activities**

	<b>Beginning Balances</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balances</b>
<b>Capital Assets Not Depreciated:</b>				
Land	\$ 57,679,137	\$ 5,257,364	\$ 1,607,932	\$ 61,328,569
Construction in Progress	207,722,079	81,190,304	238,833,792	50,078,591
Electric Production Plant	75,410	-	-	75,410
Electric Transmission Plant	35,046	-	-	35,046
Electric Distribution Plant	16,394,512	261,233	-	16,655,745
Electric General Plant	302,521	-	-	302,521
Total Capital Assets Not Depreciated	<u>282,208,705</u>	<u>86,708,901</u>	<u>240,441,724</u>	<u>128,475,882</u>
<b>Capital Assets Depreciated:</b>				
Buildings	180,007,623	44,635,038	1,652,072	222,990,589
Improvements Other than Buildings	1,276,220,032	153,351,705	37,192,993	1,392,378,744
Machinery and Equipment	187,510,043	40,381,387	46,869,673	181,021,757
Electric Production Plant	89,377,886	345,673	213,094	89,510,465
Electric Transmission Plant	44,970,711	41,715	984,870	44,027,556
Electric Distribution Plant	270,393,713	9,884,376	2,671,878	277,606,211
Electric Regional Trans Mkt Oper Plant	1,193,702	189,684	-	1,383,386
Electric General Plant	31,529,120	2,129,667	729,975	32,928,812
Total Capital Assets Depreciated	<u>2,081,202,830</u>	<u>250,959,245</u>	<u>90,314,555</u>	<u>2,241,847,520</u>
<b>Less Accumulated Depreciation:</b>				
Buildings	80,900,662	2,289,377	914,167	82,275,872
Improvements Other than Buildings	421,014,469	31,531,825	28,556,604	423,989,690
Machinery and Equipment	111,917,438	8,418,235	32,392,477	87,943,196
Electric Production Plant	55,586,540	3,515,128	172,650	58,929,018
Electric Transmission Plant	16,434,969	610,455	984,870	16,060,554
Electric Distribution Plant	149,436,329	10,870,823	2,657,941	157,649,211
Electric Regional Trans Mkt Oper Plant	158,092	248,130	-	406,222
Electric General Plant	19,390,814	2,006,270	301,482	21,095,602
Total Accumulated Depreciation	<u>854,839,313</u>	<u>59,490,243</u>	<u>65,980,191</u>	<u>848,349,365</u>
Total Capital Assets Depreciated, Net	<u>1,226,363,517</u>	<u>191,469,002</u>	<u>24,334,364</u>	<u>1,393,498,155</u>
Business Type Activities Capital Assets, Net	<u>\$ 1,508,572,222</u>	<u>\$ 278,177,903</u>	<u>\$ 264,776,088</u>	<u>\$ 1,521,974,037</u>

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

Business-Type Activities:	
LP&L	\$ 17,209,151
Water	16,650,006
Wastewater	10,079,661
Storm Water	3,951,945
Airport	9,085,502
Transit	1,340,361
Civic Centers	983,766
Cemetery	48,121
Lake Alan Henry	5,064
Internal Service	9,093
Total Depreciation Expense - Business-Type Activities	<u>59,362,670</u>
Transfer in of Accumulated Depreciation - Governmental Activities	127,573
Increase in Accumulated Depreciation - Business-Type Activities	<u><u>\$ 59,490,243</u></u>

**Construction Commitments**

The City has active construction projects at fiscal year end.

<u>Projects</u>	<u>Original Commitments</u>	<u>Spent-to-Date</u>	<u>Remaining Commitments</u>
Governmental Capital Projects	\$ 157,967,454	\$ 94,983,774	\$ 62,983,680
TIF Capital Projects	18,607,031	8,792,738	9,814,293
Gateway Street Projects	10,279,722	5,359,313	4,920,409
LP&L	159,442,964	36,941,628	122,501,336
Water/Wastewater	305,252,864	257,522,016	47,730,848
Storm Water	79,639,900	68,726,808	10,913,092
Airport	47,522,585	8,153,217	39,369,368
Civic Center	10,218,549	9,407,558	810,991
Cemetery	71,375	70,391	984
Internal Service Fund	25,390,088	22,024,264	3,365,824
Total	<u><u>\$ 814,392,532</u></u>	<u><u>\$ 511,981,707</u></u>	<u><u>\$ 302,410,825</u></u>

LP&L has numerous non-routine capital projects that are in the works. Included in this is \$9.6 million appropriated for a rebuild on the Slaton Substation. This project includes building a new 115kV substation to replace the existing 69kV substation. \$9.7 million is appropriated for construction of a new substation named Red Raider. The new substation will be located in north central Lubbock. The station will include two power transformers and eight distribution circuits and will be designed as a breaker ring bus for two 115/69kV line positions and two 115/69kV transformer positions with 12.47kV underground distribution. \$35.9 million is appropriated for a new customer service information system. The Customer Service Information System (CSIS) will integrate technologies and innovative services such as advanced meters, communication networks, and data management systems that produce a more efficient, sustainable, economic, and secure supply of utility services.

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Work has begun on engineering and construction of large sewer mains in South and Southwest Lubbock as recommended by the Wastewater Collection System Master Plan. The areas included are south of 114<sup>th</sup> Street and west of University Avenue. The project provides sanitary sewer service to newly annexed areas in South and Southwest Lubbock. \$5.7 million was appropriated to this project as of September 30, 2018.

At the, airport \$16 million is appropriated to construct rental car facility improvements. Improvements include a consolidated rental car service facility and expansion and relocation of the ready/return parking lot.

Work continues on the \$63 million Municipal Facilities replacement project that includes replacing the current City Hall with a renovated facility in the former Omni Building that will provide enough space to allow the City to locate most departments within one facility.

**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 2018, the City received \$94,607 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:

<u>Year</u>	<u>Fixed Lease</u>
2019	43,912
2020	42,223
2021	40,599
2022	39,037
2023-2027	173,787
2028-2029	60,517
<b>Total</b>	<b><u><u>\$400,075</u></u></b>

**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, 2018 and the pension expense for the year ended is as follows:

	<u>TMRS</u>	<u>LFPF</u>	<u>Total</u>
Net pension liability	\$ 86,450,251	\$84,352,092	\$170,802,343
Deferred outflows of resources	13,338,629	18,774,352	32,112,981
Deferred inflows of resources	17,723,816	1,149,026	18,872,842
Pension expense	17,043,364	15,336,719	32,380,083



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Summary of significant data for each retirement plan follows:

**TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)**

**Plan Description**

The City participates as one of 883 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](http://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:

	<b>Plan Year 2017</b>
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, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	1,336
Inactive employees entitled to but not yet receiving benefits	725
Active employees	1,751
Total	3,812

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**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 17.95% and 18.05% in calendar years 2017 and 2018, respectively. The City's contribution to TMRS for the year ended September 30, 2018, were \$17,788,537, and were equal to the required contributions.

**Net Pension Liability**

The City's net pension liability (NPL) was measured as of December 31, 2017, 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, 2017 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 Tables with Blue Collar Adjustment, 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.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. 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

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recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2018 are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return (Arithmetic)</b>
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%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	5.0%	7.75%
Total	<u>100.0%</u>	

**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**

	<b>Total Pension Liability</b>	<b>Increase (Decrease) Plan Fiduciary Net Position</b>	<b>Net Pension Liability</b>
	<b>(a)</b>	<b>(b)</b>	<b>(a)-(b)</b>
<b>Balance at September 30, 2017</b>	<b>\$ 680,821,854</b>	<b>\$ 554,773,322</b>	<b>\$ 126,048,532</b>
Changes for the year:			
Service cost	16,420,981	-	16,420,981
Interest	45,317,091	-	45,317,091
Difference between expected and actual experience	(709,626)	-	(709,626)
Contributions – employer	-	17,388,324	(17,388,324)
Contributions - employee	-	6,781,947	(6,781,947)
Net investment income	-	76,875,125	(76,875,125)
Benefit payments, including refunds of employee contributions	(35,336,067)	(35,336,067)	-
Administrative expense	-	(398,475)	398,475
Other changes	-	(20,194)	20,194
Net changes	\$ 25,692,379	\$ 65,290,660	(39,598,281)
<b>Balance at September 30, 2018</b>	<b>\$706,514,233</b>	<b>\$ 620,063,982</b>	<b>\$ 86,450,251</b>

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**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:

	<b>1% Decrease in Discount Rate (5.75%)</b>	<b>Discount Rate (6.75%)</b>	<b>1% Increase in Discount Rate (7.75)</b>
City's net pension liability	\$182,273,369	\$86,450,251	\$7,678,971

**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.tmr.com](http://www.tmr.com).

**Pension Expense and Deferred Outflow of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended September 30, 2018 the City recognized pension expense of \$17,043,364.

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference in expected and actual experience	\$ -	\$ 2,170,676
Difference in assumption changes	364,367	-
Difference between projected and actual investment earnings	-	15,553,140
Contributions subsequent to the measurement date	12,974,262	-
Total	\$ 13,338,629	\$ 17,723,816

\$12,974,262 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:

<b>Year ending September 30:</b>	
2018	\$ (471,010)
2019	(872,417)
2020	(8,067,396)
2021	(7,948,626)
Total	(\$17,359,449)

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**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, 2017 measurement date, the following employees were covered by the benefit terms:

Retirees and beneficiaries currently receiving benefits	307
Terminated employees entitled to but not yet receiving benefits	1
Active employees	407
Total	<u>715</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

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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 21.72% and 21.81% in calendar years 2017 and 2018, respectively. The City's contributions to LFPF for the year ended September 30, 2018 were \$7,111,376 and were equal to the required contributions.

**Net Pension Liability**

The LFPF's net pension liability (NPL) was measured as of December 31, 2017, and the total pension liability (TPL) used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. Update procedures were performed to roll forward to the measurement 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 percent 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.

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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 began contributing to the plan in 2018. The assumed City contribution rate for the 2015 valuation was 21.73 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.

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Changes in the Net Pension Liability	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
<b>Balance at September 30, 2017</b>	<b>\$ 268,017,378</b>	<b>\$ 176,016,821</b>	<b>\$ 92,000,557</b>
Changes for the year:			
Service cost	6,378,755	-	6,378,755
Interest	20,651,840	-	20,651,840
Difference between expected and actual experience	-	-	-
Contributions – employer	-	6,897,164	(6,897,164)
Contributions – employee	-	3,947,134	(3,947,134)
Net investment income	-	23,109,838	(23,109,838)
Benefit payments, including refunds of employee Contributions	(15,841,569)	(15,841,569)	-
Administrative expense	-	(290,549)	290,549
Other changes	-	1,015,473	(1,015,473)
Net changes	<u>\$ 11,189,026</u>	<u>\$ 18,837,491</u>	<u>\$ (7,648,465)</u>
<b>Balance at September 30, 2018</b>	<b><u>\$279,206,404</u></b>	<b><u>\$ 194,854,312</u></b>	<b><u>\$ 84,352,092</u></b>

**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	\$117,123,499	\$84,352,092	\$58,103,035

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan’s fiduciary net position is available in a separately-issued LFPP financial report. That report can be obtained by contacting the Board of Trustees, LFPP, 4223 85<sup>th</sup> Street, Lubbock, TX 79423 or at [www.lubbockfirepensionfund.com](http://www.lubbockfirepensionfund.com).

**Pension Expense and Deferred Outflow of Resources and Deferred Inflows of Resources Related to Pension**

For the year ended September 30, 2018, the City recognized pension expense of \$15,336,719.



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At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual economic experience	\$ 1,034,892	\$ 1,149,026
Changes in actuarial assumptions	6,377,407	-
Difference between projected and actual investment earnings	5,866,009	-
Contributions subsequent to the measurement date	5,496,044	-
<b>Total</b>	<b>\$ 18,774,352</b>	<b>\$ 1,149,026</b>

\$5,496,044 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ending September 30:</b>	
2019	\$ 6,453,933
2020	3,850,016
2021	31,134
2022	(1,079,397)
2023	847,419
Thereafter	2,026,177
Total	<b>\$12,129,282</b>

**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. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75. The City does not issue stand-alone financial statements for the health/dental plan. However, all required information is presented in this report.

**Benefits Provided**

Permanent full-time employees of the City are eligible to participate in the retiree health/dental care plan provided they meet the criteria for retirement. To be recognized as a "service retiree" and be eligible for group medical/dental coverage, an employee must have worked for the City for five consecutive years immediately preceding the date of retirement and satisfy the retirement eligibility criteria listed below. Employees who retire or are eligible to retire when they leave employment must make an irrevocable decision to accept or deny retiree insurance at the time they terminate their employment with the City.

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Normal Retirement Benefits

Texas Municipal Retirement System (TMRS)

- Completion of 20 years of service, regardless of age; or
- Upon attaining age 60 provided the employee has at least five (5) years of service.

Lubbock Fire Pension Fund (LFPF)

- Upon attaining age 50 provided the employee has at least twenty (20) years of service.

Retiree medical/dental coverage levels for retirees is 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 shall be eligible to elect to continue receiving medical coverage in full 30 day periods for the term of their sick leave balance. Retirees are required to pay a prorated premium for the days of coverage not funded by their excess sick leave.

Retirees may purchase retiree health/dental care coverage for eligible spouses and dependents at their own expense. Insured dependents of a deceased insured retiree shall remain eligible for insurance or the Medicare stipend.

The City will provide a \$150 per month Health Retirement Account (HRA) contribution or stipend for Medicare eligible retiree/spouses. Medicare eligible retirees/dependents may not continue coverage on the City's plan.

The following table provides a summary of the number of participants in the plan as of December 31, 2017:

Inactive plan members or beneficiaries currently receiving benefits	749
Inactive plan members entitled to but not yet receiving benefits	-
Active plan members	<u>2,147</u>
Total	<u><u>2,896</u></u>

**Contributions**

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. Plan members pay monthly premiums of \$380/\$23 (medical/dental) for single coverage and \$868/\$51 (medical/dental) for family coverage, pre-65.

**Total OPEB Liability**

The City's total OPEB liability was measured as of December 31, 2017 and was determined by an actuarial valuation as of that date.

**City of Lubbock, Texas**  
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**Actuarial assumptions**

The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Actuarial Cost Method	Individual Entry-Age
Inflation	2.5% per year
Healthcare cost trend rate	Initial rate of 7.5% declining to an ultimate rate of 4.75% after 13 years
Discount rate	3.31%
Salary increases	<u>TMRS</u> : 3.5% to 10.5%, including inflation <u>LFPF</u> : 4.0% to 11.28%

Demographic assumptions were based on the experience study covering the four year period ending December 31, 2014 as conducted for TMRS, and assumptions utilized by the LFPF.

Mortality rates for TMRS: for healthy retirees, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used 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.

Mortality rates for LFPF: for healthy retirees, the gender-distinct RP2000 Combined Healthy Mortality Tables are used, projected to 2024 using scale AA to account for future mortality improvements.

**Discount rate**

For plans that do not have formal assets, the discount rate should equal the tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. For purposes of the most recent OPEB valuation, the municipal bond rate is 3.31% (based on the daily rate closest to but not later than the measurement date of the Fidelity “20-Year Municipal GO AA Index”). The discount rate was 3.81% as of the prior measurement date.

**Changes in the Total OPEB Liability**

	<b>Total OPEB Liability</b>
<b>Balance at September 30, 2017</b>	<b>\$ 127,087,132</b>
Changes for the year:	
Service cost	6,889,393
Interest	4,871,975
Changes of assumptions	7,332,144
Benefit payments	(5,316,929)
Net changes	<u>\$ 13,776,583</u>
<b>Balance at September 30, 2018</b>	<b><u>\$ 140,863,715</u></b>

**City of Lubbock, Texas**  
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**Sensitivity of the total OPEB liability to changes in the discount rate**

The following represents the total OPEB liability of the City, calculated using the discount rate of 3.31%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.31%) or 1-percentage-point higher (4.31%) than the current rate:

	<b>1% Decrease in Discount Rate (2.31%)</b>	<b>Discount Rate (3.31%)</b>	<b>1% Increase in Discount Rate (4.31%)</b>
City's Total OPEB Liability	\$157,199,793	\$140,863,715	\$126,698,878

**Sensitivity of the Total OPEB Liability to changes in the healthcare cost trend rate**

The following represents the total OPEB liability of the City, calculated using the assumed healthcare cost trend rate, as well as what the City's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<b>1% Decrease in Healthcare Cost Trend Rate</b>	<b>Current Healthcare Cost Trend Rate Assumption</b>	<b>1% Increase in Healthcare Cost Trend Rate</b>
City's Total OPEB Liability	\$128,197,080	\$140,863,715	\$156,063,501

**OPEB Expense and Deferred Outflow of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended September 30, 2018 the City recognized total OPEB expense of \$12,744,295.

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference in expected and actual experience	\$ -	\$ -
Changes in assumptions	6,349,217	-
Contributions subsequent to the measurement date	2,690,521	-
Total	\$ 9,039,738	\$ -

**City of Lubbock, Texas**  
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\$2,690,521 reported as deferred outflows of resources related to OPEB resulting from benefit payments subsequent to the measurement date will be recognized as a reduction of the total OPEB liability as of September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<b>Year ending September 30:</b>	
2019	\$ 982,927
2020	982,927
2021	982,927
2022	982,927
2023	982,927
Thereafter	1,434,582
Total	<u>\$6,349,217</u>

**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, 2018, 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 and Wastewater Enterprise Fund.

**City of Lubbock, Texas**  
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**K. LONG-TERM DEBT**

**GENERAL OBLIGATION BONDS AND CERTIFICATES OF OBLIGATION:**

<u>Interest Rate%</u>	<u>Dated</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Outstanding 09/30/18</u>
2.45	06/01/08	08/15/28	22,615,000	12,415,000
4.67	03/01/09	08/15/29	2,645,000	540,000
3.12	03/01/09	08/15/19	20,540,000	515,000
4.53	03/01/09	08/15/29	58,705,000	11,095,000
2.16	01/01/10	02/15/30	19,945,000	13,360,000
3.27	02/15/10	02/15/30	8,840,000	2,345,000
2.70	02/15/10	02/15/30	48,955,000	5,715,000
1.93	10/05/10	02/15/30	41,000,000	27,230,000
3.85	03/15/11	02/15/22	16,320,000	3,455,000
3.85	03/15/11	02/15/31	14,135,000	10,415,000
3.94	03/15/11	02/15/31	112,230,000	76,560,000
3.35	04/01/12	02/15/32	12,395,000	9,585,000
3.43	04/01/12	02/15/32	66,075,000	48,155,000
3.28	04/01/12	02/15/31	15,200,000	9,705,000
1.61	05/21/13	02/15/21	39,705,000	21,085,000
2.05	05/21/13	02/15/33	42,075,000	33,955,000
2.80	05/21/13	02/15/33	49,440,000	36,845,000
2.64	05/01/14	02/15/26	44,920,000	35,395,000
3.25	05/01/14	02/15/34	62,900,000	52,370,000
3.11	04/15/15	02/15/35	102,490,000	92,275,000
2.42	04/15/15	02/15/28	129,665,000	107,950,000
3.21	05/01/15	02/15/31	28,305,000	26,635,000
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	94,170,000
2.47	11/1/2016	02/15/34	36,780,000	32,855,000
0.00	02/16/17	02/15/37	35,000,000	33,250,000
3.20	04/15/17	02/15/37	23,290,000	22,440,000
2.92	04/04/18	02/15/38	18,535,000	18,535,000
3.86	04/04/18	02/15/38	14,675,000	14,675,000
2.76	04/04/18	02/15/30	96,160,000	95,565,000
Total			<u>\$ 1,311,505,000</u>	<u>\$ 975,415,000 (A)</u>

(A) Excludes net bond premiums and discounts – (\$53,146,870) business-type and (\$31,413,569) governmental. Additionally, this amount includes \$651,081,459 of bonds used to finance enterprise fund activities.

At September 30, 2018, management of the City believes the City complied 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**  
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**LP&L REVENUE BONDS**

<u>Interest Rate (%)</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Amount Issued</u>	<u>Balance Outstanding 09/30/18</u>
2.45	10/15/10	04/15/20	73,295,000	16,970,000
1.90	04/15/13	04/15/24	16,570,000	8,580,000
3.09	05/01/14	04/15/34	16,245,000	12,610,000
3.41	04/15/15	04/15/35	11,865,000	10,630,000
3.04	04/15/16	04/15/46	7,535,000	6,915,000
3.60	08/15/17	02/15/47	17,760,000	17,460,000
3.64	07/12/18	04/15/48	93,925,000	93,925,000
Total			<u>237,195,000</u>	<u>\$ 167,090,000 *</u>

\* Balance outstanding excludes (\$18,663,454) 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 \$87.9 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 3.5 times the debt service requirements in FY18.

**CONTRACT BONDS**

<u>Interest Rate (%)</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Amount Issued</u>	<u>Balance Outstanding 09/30/18</u>
4.00 to 5.00	12/22/11	01/15/31	30,594,108	22,765,994
2.00 to 5.00	01/20/13	02/15/25	10,970,000	7,408,333
2.00 to 5.00	12/02/14	02/15/27	11,078,489	8,970,507
2.00 to 5.00	10/01/17	02/15/29	4,723,042	4,307,374
Total			<u>\$ 57,365,639</u>	<u>\$ 43,452,208 *</u>

\* Balance outstanding excludes (\$3,999,820) of bond premiums.

**TAX NOTE**

<u>Interest Rate (%)</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Amount Issued</u>	<u>Balance Outstanding 09/30/18</u>
1.78	07/11/17	02/15/24	18,220,000	12,505,000
2.50	08/01/18	02/15/25	13,290,000	13,290,000
Total			<u>\$ 31,510,000</u>	<u>\$ 25,795,000</u>

**City of Lubbock, Texas**  
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The annual requirements to amortize all outstanding debt of the City as of September 30, 2018 are as follows:

Fiscal Year	Governmental Activities			
	General Obligation Bonds		Tax Notes	
	Principal	Interest	Principal	Interest
2019	\$ 29,126,169	\$ 14,175,822	\$ 6,906,514	\$ 339,781
2020	29,038,552	12,689,624	3,365,791	245,137
2021	28,308,647	11,404,078	2,772,231	180,035
2022	27,951,206	10,107,411	2,632,078	122,372
2023	27,458,332	8,820,230	2,293,215	70,813
2024-2028	110,429,751	26,564,325	2,280,138	34,854
2029-2033	53,345,883	8,030,587	-	-
2034-2038	18,675,000	996,100	-	-
Totals	<u>\$ 324,333,541</u>	<u>\$ 92,788,175</u>	<u>\$ 20,249,968</u>	<u>\$ 992,992</u>

Fiscal Year	Business-Type Activities					
	General Obligation Bonds		Tax Notes		Revenue/Contract Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 49,038,831	\$ 25,955,538	\$ 1,398,486	\$ 105,567	\$ 19,191,991	\$ 7,654,593
2020	47,681,448	24,025,535	1,114,209	79,305	19,242,002	8,395,621
2021	47,921,353	22,138,463	917,769	55,926	11,042,391	7,486,654
2022	45,113,794	20,222,324	822,922	36,337	12,360,556	7,303,248
2023	45,926,668	18,281,844	651,785	20,171	12,944,810	7,058,878
2024-2028	234,140,249	60,648,335	639,862	10,078	55,704,072	26,419,725
2029-2033	144,599,117	17,785,680	-	-	26,621,387	16,016,227
2034-2038	36,660,000	1,598,470	-	-	19,825,000	10,644,306
2039-2043	-	-	-	-	15,335,000	6,695,756
2044-2048	-	-	-	-	18,275,000	2,626,625
Totals	<u>\$ 651,081,459</u>	<u>\$ 190,656,190</u>	<u>\$ 5,545,032</u>	<u>\$ 307,384</u>	<u>\$ 210,542,208</u>	<u>\$ 100,301,634</u>



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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, 2018, including interest payments totaling \$871,142, are as follows:

<b>Fiscal Year</b>	<b>Governmental Capital Lease Minimum Payment</b>	<b>Business-type Capital Lease Minimum Payment</b>	<b>Total Capital Lease Minimum Payment</b>
2019	\$ 2,152,361	\$ 554,905	\$ 2,707,266
2020	2,152,361	554,905	2,707,266
2021	2,152,361	554,905	2,707,266
2022	1,846,027	436,184	2,282,211
2023	1,594,987	336,578	1,931,566
2024-2028	2,179,067	360,818	2,539,885
Less Interest	(725,912)	(145,228)	(871,142)
Total	<u>\$ 11,351,252</u>	<u>\$ 2,653,067</u>	<u>\$ 14,004,318</u>

The carrying values on the leased assets of the City as of September 30, 2018 are as follows:

	<b>Gross Value</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Governmental Activities	\$ 15,020,158	\$ 4,572,545	\$ 10,447,613
Business-Type Activities	3,373,830	1,056,974	2,316,856
Total Leased Assets	<u>\$ 18,393,988</u>	<u>\$ 5,629,519</u>	<u>\$ 12,764,469</u>

**City of Lubbock, Texas**  
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Long-term obligations for governmental and business-type activities for the year ended September 30, 2018 are as follows:

	Debt Payable 9/30/2017*	Additions	Deletions	Debt Payable 09/30/18	Due in one year
<b>Governmental activities:</b>					
Tax-Supported -					
Obligation Bonds	\$ 329,436,266	\$ 67,618,255	\$ 52,471,012	\$ 344,583,509	\$ 36,032,684
Bond Premiums	30,095,922	6,217,432	4,899,785	31,413,569	-
Capital Leases	15,659,605	8,611,984	12,920,337	11,351,252	1,947,242
Closure/Post Closure	-	5,879,342	-	5,879,342	-
Compensated Absences	29,955,093	10,331,909	10,985,159	29,301,843	10,561,944
Total OPEB Liability**	89,020,811	13,374,446	3,724,353	98,670,904	-
Net Pension Liability	175,468,106	68,511,173	102,400,627	141,578,652	-
Insurance Claims Payable	1,708,169	29,441,716	29,064,021	2,085,864	1,879,494
<b>Total Governmental activities</b>	<b>\$ 671,343,972</b>	<b>\$ 209,986,257</b>	<b>\$ 216,465,294</b>	<b>\$ 664,864,935</b>	<b>\$ 50,421,364</b>
<b>Business-type activities:</b>					
Self-Supported -					
Obligation Bonds	\$ 717,858,734	\$ 95,598,122	\$ 156,830,365	\$ 656,626,491	\$ 50,437,317
Revenue and Contract Bonds	132,469,311	98,173,700	20,100,803	210,542,208	19,191,991
Bond Premiums	62,584,859	24,191,206	10,965,921	75,810,144	-
Note Payable	1,250,000	-	1,250,000	-	-
Capital Leases	14,276,268	-	11,623,201	2,653,067	510,845
Closure/Post Closure	5,676,084	-	5,676,084	-	-
Compensated Absences	6,300,917	2,895,975	3,505,449	5,691,443	4,512,335
Total OPEB Liability**	38,066,321	5,719,066	1,592,576	42,192,811	-
Net Pension Liability	42,580,983	20,966,712	34,324,004	29,223,691	-
Insurance Claims Payable	2,911,858	5,313,246	4,427,161	3,797,943	1,434,338
<b>Total Business-type activities</b>	<b>\$ 1,023,975,335</b>	<b>\$ 252,858,027</b>	<b>\$ 250,295,564</b>	<b>\$ 1,026,537,798</b>	<b>\$ 76,086,826</b>

\*Beginning balances have been adjusted due to the Fleet Internal Service Fund changing from a business-type activity to a governmental activity for FY 2018. This is a result of Solid Waste operations moving from an Enterprise Fund to the General Fund.

\*\*The Post Employment Benefits Obligation that was previously reported has been eliminated and the Total OPEB Liability has been recorded per the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

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 2018, the City did had \$50,917 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

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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 liability that pertains to governmental activities. The net pension liability that pertains to the governmental activities will be liquidated mainly by the General Fund.

The total long-term debt is reconciled to the total annual requirements to amortize long-term debt as follows:

Long-Term Debt - Governmental Activities	\$ 664,864,935	
Long-Term Debt - Business-Type Activities	1,026,537,798	
Interest	385,046,375	
Total Amount of Debt		\$ 2,076,449,108
Less: Bond Discounts/Premiums	(107,223,713)	
Less: Capital Leases	(14,004,319)	
Less: Notes Payable	-	
Less: Closure/Post Closure	(5,879,342)	
Less: Compensated Absences	(34,993,286)	
Less: Post Employment Benefits	(140,863,715)	
Less: Net Pension Liability	(170,802,343)	
Less: Insurance Claims Payable	(5,883,807)	
Total Other Debt		(479,650,525)
Total Future Bonded Debt Requirements		\$ 1,596,798,583

**New Bond Issuance**

In April 2018, the City issued \$18,535,000 Tax and Waterworks System Surplus Revenue Certificates of Obligation, Series 2018A (Certificates), with interest rates ranging from 3.00 percent to 5.00 percent. The Certificates were issued at a premium of \$2,105,259 and incurred issuance cost of \$210,259. The \$20,640,259 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) purchase of computing assets for the Secondary Data Center; (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; and (iii) 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 April 2018, the City issued \$14,675,000 Tax and Waterworks System Surplus Revenue Certificates of Obligation, Taxable Series 2018B (Certificates), with interest rates ranging from 2.30 percent to 4.06 percent. The Certificates were issued at par and incurred issuance cost of \$175,000. The \$14,675,000 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) construction, renovations and improvements to the Lubbock Preston Smith International Airport facilities, including terminal building remodeling and construction of a consolidated rental car parking facility; 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 various Capital Projects Funds.

In August 2018, the City issued \$93,925,000 Electric Light and Power System Revenue Bonds, Series 2018 (Bonds), with interest rates from 4.00 percent to 5.00 percent. The Bonds were issued at a premium of \$12,858,194 and incurred issuance costs of \$942,947. \$106,783,194 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,

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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.

**Refunding**

In April 2018, the City issued \$96,160,000 General Obligation Refunding Bonds, Series 2018 (Bonds), with interest rates ranging from 2.00 percent to 5.00 percent. The Bonds were issued at a premium of \$13,366,461 and incurred issuance cost of \$807,927. The \$96,160,000 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 \$104,665,000 of outstanding debt. Because of the refunding, the City decreased total debt service requirements by \$4,890,083, which resulted in net present value savings of \$4,199,997, or 4.01 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, 2018, \$104,665,000 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, 2018, 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, 2018, there was one series of Lubbock Education Facilities Authority Inc. Bonds outstanding with an aggregate principal amount payable of \$20,585,000. 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 \$2,057,000 outstanding special assessment debt as of September 30, 2018. 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, 2018, \$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, 2018**

**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>
<b>Fund Balances</b>				
Nonspendable:				
Inventory	\$ 121,578	\$ -	\$ -	\$ 121,578
Restricted:				
Debt Service	5,007,610	-	9,763,864	14,771,474
Economic and Business Development	-	-	132,353	132,353
Tourism, Convention Centers, Arts	-	-	449,401	449,401
Animal Assistance	-	-	407,594	407,594
Tax Improvement Financing Areas	-	-	3,839,818	3,839,818
Public Improvement Districts	-	-	1,595,805	1,595,805
Cable Services to Public Buildings	-	-	3,236,123	3,236,123
Community Services Grants	-	-	261,966	261,966
Health Grants	-	-	40,294	40,294
Police Grants	-	-	65,903	65,903
Cultural and Recreation Grants	-	-	14,680	14,680
Law Enforcement Purposes	-	-	974,336	974,336
Court Technology	-	-	704,365	704,365
Donations for Community Services	-	-	52,895	52,895
Donations for Animal Services	-	-	42,575	42,575
Donations for Museums	-	-	188,346	188,346
Donations for Parks and Recreational	-	-	118,354	118,354
Donations for Fire Services	-	-	16,426	16,426
Donations for Police Services	-	-	7,476	7,476
Donations for Cultural	-	-	18,807	18,807
Donations for Other Programs	-	-	1,375	1,375
Street Capital Projects	-	4,602,426	5,197,621	9,800,047
General Facility Capital Projects	-	4,172,365	-	4,172,365
Public Safety Capital Projects	-	44,952,759	-	44,952,759
Parks Capital Projects	-	410,489	-	410,489
TIF Capital Projects	-	-	7,642,122	7,642,122
Committed:				
Gateway Street Capital Projects	-	-	11,010,947	11,010,947
Infrastructure and neighborhood dev	-	-	1,693,451	1,693,451
Other Capital Projects	-	9,976,232	-	9,976,232
Unassigned	47,963,825	-	-	47,963,825
<b>Total Fund Balances</b>	<b>\$ 53,093,013</b>	<b>\$ 64,114,271</b>	<b>\$ 47,476,897</b>	<b>\$ 164,684,181</b>

The restricted special revenue fund balances are also restricted for GWFS net position.

**City of Lubbock, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2018**

**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 was 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 until October 1, 2017. After October 1, 2017 all self-insurance liability claims are being adjusted and paid through the use of an in-house claims adjuster who, with the assistance of the Risk Manager, sets reserves. 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. In FY 2018, the City of Lubbock separated Lubbock Power and Light's property and boiler and machinery as a cost savings measure. The property insurance policy was purchased from an outside insurance carrier. The policy has a \$500,000 wind/hail deductible per occurrence and a \$250,000 deductible for all other forms of loss. The boiler and machinery insurance policy was purchased from an outside insurance carrier. The policy has a \$25,000 deductible. Lubbock Power and Light purchases package property and boiler and machinery coverage from an outside carrier. The policy has various deductibles for both property and boiler and machinery ranging from \$100,000 to 2.5% of location values. Premiums are charged to funds based upon estimated premiums for the upcoming year. Departments that sustain property damage in excess of \$1,000 are eligible to request assistance from the Risk Management Fund for payment of those damages up to the 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. The Department of Justice settlement exceeded our self-insured retention by \$392,582.92 in the current year but the 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, 2018**

**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 \$700,000 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 \$2.06 million at September 30, 2018 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><b>FY 2018</b></u>	<u><b>FY 2017</b></u>
Workers' Compensation and Liability Reserves at Beginning of Fiscal Year	\$ 2,911,858	\$ 1,291,107
Claims Expenses	5,313,246	7,406,037
Claims Payments	<u>(4,427,161)</u>	<u>(5,785,286)</u>
Workers' Compensation and Liability Reserves at End of Fiscal Year	<u>3,797,943</u>	<u>2,911,858</u>
Medical and Dental Claims Liability at Beginning of Fiscal Year	1,708,169	1,692,743
Claims Expenses	29,441,716	27,751,203
Claims Payments	<u>(29,064,021)</u>	<u>(27,735,777)</u>
Medical and Dental Claims Liability at End of Fiscal Year	<u>2,085,864</u>	<u>1,708,169</u>
Total Self-Insurance Liability at End of Fiscal Year	<u>\$ 5,883,807</u>	<u>\$ 4,620,027</u>
Total Assets to Pay Claims at End of Fiscal Year	<u>\$ 23,148,358</u>	<u>\$ 22,525,450</u>
Accrued Insurance Claims Payable - Current	\$ 3,313,832	\$ 2,544,687
Accrued Insurance Claims Payable - Noncurrent	<u>2,569,975</u>	<u>2,075,340</u>
Total Accrued Insurance Claims	<u>\$ 5,883,807</u>	<u>\$ 4,620,027</u>

**City of Lubbock, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2018**

**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 \$5,879,342 included in landfill closure and post closure care liability at September 30, 2018, 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 96.5 percent of the estimated capacity of Landfill 69 has been used, with \$603,168 remaining to be recognized over the remaining closure period. Approximately 7.3 percent of the estimated capacity of Landfill 2252 has been used to date, with \$19,504,968 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**

	<u>Accounts Receivable Summary</u>					<b>Balance at 09/30/18</b>
	<b>Court Fines</b>	<b>Consumer Metered</b>	<b>Property Damage</b>	<b>Paving</b>	<b>Misc.</b>	
<b>Governmental Funds:</b>						
General Fund	\$ 3,834,483	\$ 3,107,722	\$ 460,508	\$ 221,417	\$ 10,241	\$ 7,634,371
Capital Projects	-	-	-	-	65,702	65,702
Nonmajor	-	-	-	-	-	-
Total	<u>\$ 3,834,483</u>	<u>\$ 3,107,722</u>	<u>\$ 460,508</u>	<u>\$ 221,417</u>	<u>\$ 75,943</u>	<u>\$ 7,700,073</u>

	<u>Accounts Receivable Summary</u>		
	<b>General Consumer</b>	<b>Misc.</b>	<b>Balance at 09/30/18</b>
<b>Proprietary Funds:</b>			
LP&L	\$ 31,977,662	\$ 1,279,535	\$ 33,257,197
Water/Wastewater	18,709,737	536,467	19,246,204
WTMPA	602,360	-	602,360
Storm Water	3,471,863	-	3,471,863
Nonmajor	1,307,691	28,884	1,336,575
Total	<u>\$ 56,069,313</u>	<u>\$ 1,844,886</u>	<u>\$ 57,914,199</u>



**City of Lubbock, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2018**

**Allowance for Doubtful Accounts Summary**

	<b>Balance at 09/30/18</b>
<b>Governmental Funds:</b>	
General Fund	\$ 4,170,743
<b>Proprietary Funds:</b>	
LP&L	2,785,403
Water/Wastewater	2,006,191
Storm Water	330,694
Nonmajor	6,173
Total	\$ 9,299,204

**Accounts Payable Summary**

	<b>Vouchers</b>	<b>Accounts</b>	<b>Miscellaneous</b>	<b>Balance at 09/30/18</b>
<b>Governmental Funds:</b>				
General Fund	\$ 723,285	\$ 3,653,462	\$ -	\$ 4,376,747
Govt. Capital Projects	2,061,276	185,149	457,174	2,703,599
Nonmajor	981,006	1,237,348	556,221	2,774,575
<b>Proprietary Funds:</b>				
LP&L	4,443,607	683,020	13,835,486	18,962,113
Water/Wastewater	2,371,269	5,253,408	1,393,204	9,017,881
WTMPA	-	11,954,331	-	11,954,331
Storm Water	207,624	1,399,268	28,420	1,635,312
Nonmajor	3,574,154	26,506	742,574	4,343,234
Internal Service	976,101	257,397	248,267	1,481,765
Total	\$ 15,338,322	\$ 24,649,889	\$ 17,261,346	\$ 57,249,557

**City of Lubbock, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2018**

**S. DISAGGREGATION OF ACCOUNTS - GOVERNMENT-WIDE**

	<b>Net Receivables</b>				<b>Balance at 09/30/18</b>
	<b>Accounts Receivable</b>	<b>Interest Receivable</b>	<b>Taxes Receivable</b>	<b>Internal Service Receivables</b>	
<b>Governmental Activities</b>	\$ 3,529,330	\$ 304,627	\$ 15,071,823	\$ 8,408	\$ 18,914,188
<b>Business-Type Activities</b>	52,785,738	471,137	-	-	53,256,875
<b>Total</b>	<b>\$ 56,315,068</b>	<b>\$ 775,764</b>	<b>\$ 15,071,823</b>	<b>\$ 8,408</b>	<b>\$ 72,171,063</b>

	<b>Accounts Payable</b>		
	<b>Accounts Payable</b>	<b>Internal Service Payables</b>	<b>Balance at 09/30/18</b>
<b>Governmental Activities</b>	\$ 9,854,921	\$ 1,412,860	\$ 11,267,781
<b>Business-Type Activities</b>	45,912,871	68,905	45,981,776
<b>Total</b>	<b>\$ 55,767,792</b>	<b>\$ 1,481,765</b>	<b>\$ 57,249,557</b>

**T. FUND CLOSURES**

The Solid Waste nonmajor enterprise fund was closed. Long-term assets and liabilities were included as miscellaneous expense (\$16,721,688) and current assets and liabilities were included as transfers out (\$16,991,909) on the Nonmajor Enterprise Fund Combining Statement of Revenues, Expenses and Changes in Net Position. The operations were moved to the General Fund.

**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, 2018, the City has \$909,556 reserved on general liability claims, as determined by an actuarial calculation.

**City of Lubbock, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2018**

The following represents the significant litigation against the City at this time.

**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 for 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.

**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 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.

**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. Both Officer Mitchell and the City of Lubbock have filed a Motion for Summary Judgment.

**Omega Flex, Inc. v. City of Lubbock**

The Plaintiff is asserting than an ordinance pertaining to the regulation of corrugated stainless steel tubing (CSST) that was passed by the City Council was illegal.

**Lynn Frame v. City of Lubbock**

The Plaintiff is claiming the City unlawfully took her property, a computer, when it was seized during an investigation. When the computer was no longer being held as evidence, parties were notified more than once that it could be picked up. However, Plaintiff claims she was never notified. The property was subsequently destroyed and the Plaintiff is claiming the computer contained valuable research that she had conducted over a period of years regarding work at Texas Tech University.

**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.

**City of Lubbock, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2018**

As of September 30, 2018, 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.

As of September 30, 2018, the City recorded pollution remediation obligation in the LP&L enterprise fund as follows:

- LP&L Cooke Plant - \$44,700

**City of Lubbock, Texas**  
**Required Supplementary Information**  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
**Texas Municipal Retirement System**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Total pension liability</b>				
Service Cost	\$ 16,420,981	\$ 15,823,941	\$ 15,646,134	\$ 13,880,535
Interest (on the total pension liability)	45,317,091	43,569,660	43,381,064	41,941,717
Difference between expected and actual experience	(709,626)	(116,124)	(2,308,849)	(5,561,662)
Change of assumptions	-	-	1,083,512	-
Benefit payments, including refunds of employee contributions	<u>(35,336,067)</u>	<u>(32,040,199)</u>	<u>(32,247,421)</u>	<u>(28,915,142)</u>
<b>Net Change in Total Pension Liability</b>	<b>25,692,379</b>	<b>27,237,278</b>	<b>25,554,440</b>	<b>21,345,448</b>
Total Pension Liability - Beginning	<u>680,821,854</u>	<u>653,584,576</u>	<u>628,030,136</u>	<u>606,684,688</u>
Total Pension Liability - Ending (a)	<u><u>\$ 706,514,233</u></u>	<u><u>\$ 680,821,854</u></u>	<u><u>\$ 653,584,576</u></u>	<u><u>\$ 628,030,136</u></u>
<b>Plan Fiduciary Net Position</b>				
Contributions - Employer	\$ 17,388,324	\$ 16,727,368	\$ 17,455,926	\$ 16,809,722
Contributions - Employee	6,781,947	6,519,575	6,580,584	6,187,966
Net Investment Income	76,875,125	35,696,237	791,199	29,351,843
Benefit payments, including refunds of employee contributions	(35,336,067)	(32,040,199)	(32,247,421)	(28,915,142)
Administrative Expense	(398,475)	(403,223)	(481,936)	(306,464)
Other	<u>(20,194)</u>	<u>(21,725)</u>	<u>(23,803)</u>	<u>(25,196)</u>
<b>Net Change in Plan Fiduciary Net Position</b>	<b>65,290,660</b>	<b>26,478,033</b>	<b>(7,925,451)</b>	<b>23,102,729</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<u>554,773,322</u>	<u>528,295,289</u>	<u>536,220,740</u>	<u>513,118,011</u>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u><u>\$ 620,063,982</u></u>	<u><u>\$ 554,773,322</u></u>	<u><u>\$ 528,295,289</u></u>	<u><u>\$ 536,220,740</u></u>
<b>City's Net Pension Liability - Ending (a) - (b)</b>	<b>\$ 86,450,251</b>	<b>\$ 126,048,532</b>	<b>\$ 125,289,287</b>	<b>\$ 91,809,396</b>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	87.76%	81.49%	80.83%	85.38%
<b>Covered Payroll</b>	96,821,824	93,136,791	93,914,371	88,287,852
<b>City's Net Pension Liability as a Percentage of Covered Payroll</b>	89.29%	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>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially Determined Contribution	\$ 17,788,537	\$ 17,128,597	\$ 16,819,070	\$ 16,822,154
Contributions in relation to the actuarially determined contribution	17,788,537	17,128,597	16,819,070	16,822,154
Covered payroll	98,700,040	95,409,809	92,797,625	90,076,485
Contributions as a percentage of covered payroll	18.02%	17.95%	18.12%	18.68%

**Notes to Schedule of Contributions**

Valuation Date: December 31, 2017  
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	28 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>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Total pension liability</b>				
Service Cost	\$ 6,378,755	\$ 6,133,418	\$ 5,897,517	\$ 5,670,689
Interest (on the total pension liability)	20,651,840	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	<u>(15,841,569)</u>	<u>(15,782,381)</u>	<u>(14,614,970)</u>	<u>(13,429,152)</u>
<b>Net Change in Total Pension Liability</b>	11,189,026	11,388,134	10,266,396	17,865,571
Total Pension Liability - Beginning	<u>268,017,378</u>	<u>256,629,244</u>	<u>246,362,848</u>	<u>228,497,277</u>
Total Pension Liability - Ending (a)	<u>\$ 279,206,404</u>	<u>\$ 268,017,378</u>	<u>\$ 256,629,244</u>	<u>\$ 246,362,848</u>
<b>Plan Fiduciary Net Position</b>				
Contributions - Employer	\$ 6,897,164	\$ 6,598,900	\$ 6,652,094	\$ 6,234,058
Contributions - Employee	3,947,134	3,774,706	3,716,202	3,424,188
Net Investment Income	23,109,838	7,668,252	(5,133,050)	991,921
Benefit payments, including refunds of employee contributions	(15,841,569)	(15,782,381)	(14,614,970)	(13,429,152)
Administrative Expense	(290,549)	(322,882)	(244,762)	(205,266)
Other	<u>1,015,473</u>	<u>1,244,040</u>	<u>136,500</u>	<u>53,411</u>
<b>Net Change in Plan Fiduciary Net Position</b>	18,837,491	3,180,635	(9,487,986)	(2,930,840)
<b>Plan Fiduciary Net Position - Beginning</b>	<u>176,016,821</u>	<u>172,836,186</u>	<u>182,324,172</u>	<u>185,255,012</u>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>\$ 194,854,312</u>	<u>\$ 176,016,821</u>	<u>\$ 172,836,186</u>	<u>\$ 182,324,172</u>
<b>City's Net Pension Liability - Ending (a) - (b)</b>	<u>\$ 84,352,092</u>	<u>\$ 92,000,557</u>	<u>\$ 83,793,058</u>	<u>\$ 64,038,676</u>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	69.79%	65.67%	67.35%	74.01%
<b>Covered Payroll</b>	31,754,899	30,367,707	29,897,052	27,547,772
<b>City's Net Pension Liability as a Percentage of Covered Payroll</b>	265.63%	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>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Determined Contribution	\$ 7,111,376	\$ 7,071,721	\$ 6,591,298	\$ 6,316,139
Contributions in relation to the contractually determined contribution	7,111,376	7,071,721	6,591,298	6,316,139
Covered payroll	32,636,722	32,554,784	30,141,037	28,277,981
Contributions as a percentage of covered payroll	21.79%	21.72%	21.87%	22.34%

**Notes to Schedule of Contributions**

Valuation Date: December 31, 2016  
Notes Contractually determined contribution rates 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 Changes in Total OPEB Liability and Related Ratios**

	<u>2018</u>
<b>Total OPEB liability</b>	
Service Cost	\$ 6,889,393
Interest (on the total OPEB liability)	4,871,975
Changes of benefit terms	-
Change of assumptions	7,332,144
Benefit payments	<u>(5,316,929)</u>
<b>Net Change in Total OPEB Liability</b>	<u>13,776,583</u>
Total OPEB Liability - Beginning	<u>127,087,132</u>
Total OPEB Liability - Ending (a)	<u>\$ 140,863,715</u>
<b>Covered Payroll</b>	120,830,434
<b>City's Total OPEB Liability as a Percentage of Covered Payroll</b>	116.58%

NOTE: The City implemented GASB Statement No. 75 in FY 2018. Information in this table has been determined as of the measurement date (December 31) of the total OPEB liability and will ultimately contain information for ten years.

Changes in assumptions: reflects a change in the discount rate from 3.81% as of December 31, 2016 to 3.31% as of December 31, 2017.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

**City of Lubbock, Texas**  
**Required Supplementary Information**  
**Mandatory Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended September 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>REVENUES</b>				
<b>Taxes</b>				
Property Tax	\$ 59,820,411	\$ 59,820,411	\$ 60,226,061	\$ 405,650
Delinquent Taxes	730,000	730,000	499,171	(230,829)
Sales Tax	65,299,798	65,299,798	67,440,546	2,140,748
Mixed Beverage Tax	1,313,250	1,313,250	1,431,793	118,543
Bingo Tax	250,000	250,000	231,039	(18,961)
Suddenlink	1,972,156	1,972,156	1,882,925	(89,231)
Excel	5,066	5,066	11,917	6,851
South Plains Electric Cooperative	1,073,055	1,073,055	1,474,381	401,326
Atmos	2,290,185	2,290,185	2,546,208	256,023
West Texas Gas Company	15,000	15,000	13,805	(1,195)
Telecom Right of Way	2,900,000	2,900,000	2,906,438	6,438
Development Services	221,520	221,520	227,269	5,749
General Government	111,608	111,608	191,818	80,210
City Secretary	332,360	332,360	344,549	12,189
Public Safety	765,491	765,491	802,453	36,962
Public Works	22,921,658	22,921,658	22,967,881	46,223
Health	50,623	50,623	68,219	17,596
Animal Shelter	127,000	127,000	83,203	(43,797)
Cultural/Recreational	1,103,553	1,103,553	984,828	(118,725)
Museum	298,520	298,520	262,951	(35,569)
Licenses and Permits	3,271,483	3,271,483	2,746,529	(524,954)
Intergovernmental	363,627	363,627	420,809	57,182
Fines and Forfeitures	2,877,000	2,877,000	3,088,354	211,354
Interest Earnings	269,852	269,852	710,521	440,669
Rental	7,000	7,000	3,728	(3,272)
Recoveries of Expenditures	989,944	989,944	822,809	(167,135)
Other	616,100	616,100	758,065	141,965
Transfers from Electric Fund	15,526,145	15,526,145	13,789,411	(1,736,734)
Transfers from Water/Wastewater Fund	15,726,566	15,726,566	15,726,566	-
Transfers from Solid Waste	-	-	9,987,288	9,987,288
Transfers from Airport Fund	1,795,178	1,795,178	1,795,178	-
Transfers from Stormwater	2,633,864	3,039,055	3,039,055	-
<b>Total Revenue</b>	<u>\$ 205,678,013</u>	<u>\$ 206,083,204</u>	<u>\$ 217,485,768</u>	<u>\$ 11,402,564</u>
<b>EXPENDITURES</b>				
<b>Administrative Services</b>				
City Attorney	\$ 2,094,813	\$ 2,094,813	\$ 2,100,325	\$ (5,512)
City Council	618,270	618,270	526,754	91,516
City Manager	1,560,389	1,560,389	1,303,079	257,310
City Secretary	1,599,731	1,599,731	1,147,707	452,024
Facilities Management	3,376,149	3,376,149	3,098,866	277,283
Finance	2,989,629	2,989,629	2,915,153	74,476
Human Resources	618,086	618,086	544,897	73,189
Internal Audit	321,049	321,049	321,411	(362)
Non-departmental	1,333,742	1,353,233	8,093,204	(6,739,971)
Public Information	590,539	590,539	549,193	41,346
Total Administrative Services	<u>15,102,397</u>	<u>15,121,888</u>	<u>20,600,589</u>	<u>(5,478,701)</u>

**City of Lubbock, Texas**  
**Required Supplementary Information**  
**Mandatory Budgetary Comparison Schedule (Continued)**  
**General Fund**  
**For the Year Ended September 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>EXPENDITURES (Continued)</b>				
<u>Development Services*</u>				
Building Inspection	\$ 2,270,307	\$ 2,270,307	\$ 2,241,985	\$ 28,322
Codes and Environmental Health	3,019,252	3,019,252	2,803,662	215,590
Planning	<u>717,503</u>	<u>717,503</u>	<u>816,111</u>	<u>(98,608)</u>
Total Development Services	<u>6,007,062</u>	<u>6,007,062</u>	<u>5,861,758</u>	<u>145,304</u>
<u>Cultural and Recreation Services</u>				
Library	3,863,011	3,863,011	3,596,860	266,151
Museums	1,243,065	1,243,065	1,225,146	17,919
Parks	11,370,699	11,370,699	10,180,049	1,190,650
Total Cultural and Recreation Services	<u>16,476,775</u>	<u>16,476,775</u>	<u>15,002,055</u>	<u>1,474,720</u>
<u>Public Works</u>				
Solid Waste	15,546,319	15,623,677	15,580,975	42,702
Engineering	1,459,736	1,459,736	1,329,872	129,864
Streets	4,923,341	4,923,341	4,100,862	822,479
Traffic	3,899,612	3,899,612	3,723,324	176,288
Total Public Works	<u>25,829,008</u>	<u>25,906,366</u>	<u>24,735,033</u>	<u>1,171,333</u>
<u>Public Safety and Health Services</u>				
Animal Services	2,124,581	2,124,581	2,068,966	55,615
Fire	51,589,685	51,584,640	51,468,455	116,185
Municipal Court	1,921,707	1,921,707	1,859,530	62,177
Police	67,073,581	67,018,586	64,563,991	2,454,595
Public Health	1,505,453	1,505,453	1,335,902	169,551
Total Public Safety and Health Services	<u>124,215,007</u>	<u>124,154,967</u>	<u>121,296,844</u>	<u>2,858,123</u>
Transfers	25,237,279	25,254,881	24,334,333	920,548
Payroll Accrual/Other Adjustments	-	42,438	-	42,438
<b>Total Expenditures</b>	<u>\$ 212,867,528</u>	<u>\$ 212,964,377</u>	<u>\$ 211,830,612</u>	<u>\$ 1,133,765</u>
<b>Revenues less expenditures</b>	<u>\$ (7,189,515)</u>	<u>\$ (6,881,173)</u>	<u>\$ 5,655,156</u>	<u>\$ 12,536,329</u>

\*Building Inspection and Codes & Environmental Health are 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, 2018**

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 \$217,485,768

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 9,768,979

Total general fund revenues and other financing sources as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds \$227,254,747

**Expenditures and Other Financing Uses**

Actual amounts (budgetary basis) "Total Expenditures" from the Budget Comparison Schedule \$211,830,612

Adjustments:

Capital outlay that has or will be purchased from tax note proceeds are classified as expenditures for GAAP reporting, but are not included in total expenditures on the budget basis 1,960,650

Total general fund expenditures and other financing uses as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds \$213,791,262

**APPENDIX C**  
**EXCERPTS OF SELECTED PROVISIONS OF THE BOND ORDINANCE**

## EXCERPTS OF SELECTED PROVISIONS OF THE BOND ORDINANCE

### **Definitions.**

Unless otherwise expressly provided or unless the context clearly requires otherwise in this Ordinance, the following terms shall have the meanings specified below:

“Account” means any account created within a Fund established pursuant to the terms of this Ordinance or an ordinance authorizing the issuance of Parity Obligations.

“Additional Bonds” means the additional parity obligations the City reserves the right to issue in accordance with the terms and conditions prescribed in Section 9.01 hereof.

“Authorized Officer” means each of the Mayor, the City Manager and the Chief Financial Officer, acting individually.

“Bond” means any of the Bonds.

“Bond Date” means the date designated as the initial date of the Bonds by Section 3.02(a) of this Ordinance.

“Bond Fund” has the meaning assigned in Section 7.01 hereof.

“Bonds” means the City’s bonds authorized to be issued by Section 3.01 of this Ordinance.

“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 of the Paying Agent/Registrar is located are required or authorized by law or executive order to close.

“Chapter 1207” means Chapter 1207, Texas Government Code, as amended.

“Chapter 1208” means Chapter 1208, Texas Government Code, as amended.

“Chapter 1502” means Chapter 1502, Texas Government Code, as amended.

“Chief Financial Officer” means the Chief Financial Officer of the City or such other City official or officer who has assumed the duties of the Chief Financial Officer.

“City” means the City of Lubbock, Texas.

“Closing Date” means the date of the initial delivery of and payment for Bonds.

“Code” means the Internal Revenue Code of 1986, as amended by all legislation, if any, enacted on or before the Issue Date.

“Computation Date” has the meaning stated in Section 1.148-1(b) of the Regulations.

“Covered Parity Bonds” means Parity Bonds (other than TWDB Bonds) designated as Covered Parity Bonds.

“Credit Facility” means an agreement (including a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitment to purchase Parity Bonds, purchase or sale agreement, or commitment or other contract) that is (a) authorized, recognized and approved by the City as a Credit Facility in connection with the authorization, issuance, security, or payment of Parity Bonds or (b) entered into with a financial institution for the purpose of (i) enhancing or supporting the creditworthiness of (A) a series or installment of Parity Bonds or (B) all of the Parity Bonds, (ii) providing a surety policy or other similar instrument in order to fund all or a portion of a Reserve Fund Requirement for one or more series of Parity Bonds, or (iii) providing liquidity with respect to a series or installment of Parity Bonds which by their terms are subject to tender for purchase, and which, by its terms, creates a liability on the part of the City on a parity with the Parity Bonds; provided that, on the date any such credit facility is issued, any rating agency having an outstanding rating on the Parity Bonds would not lower the rating on the Parity Bonds as confirmed in writing by such rating agency. A determination by the City Council contained in the ordinance authorizing the issuance of Parity Bonds and/or authorizing the execution and delivery of a Credit Facility that such agreement constitutes a Credit Facility under this definition shall be conclusive as against all Owners.

“Debt Service” means, as of any particular date of computation, with respect to any series or installment of obligations and with respect to any period, the aggregate of the amounts to be paid or set aside by the City as of such date or in such period for the payment of the principal of, premium, if any, and interest (to the extent not capitalized) on such obligations; assuming in the case of obligations required to be redeemed or prepaid as to principal prior to maturity, the principal amounts thereof will be redeemed or paid prior to maturity in accordance with the mandatory redemption or prepayment provisions applicable thereto.

“Defeasance Securities” has the meaning assigned in the Escrow Agreement.

“Designated Payment/Transfer Office” means the Designated Payment/Transfer Office, as designated in the Paying Agent/Registrar Agreement, or such other location designated by the Paying Agent/Registrar.

“DTC” means The Depository Trust Company of New York, New York, or any successor securities depository.

“DTC Participant” means brokers and dealers, banks, trust companies, clearing corporations and certain other organizations on whose behalf DTC was created to hold securities to facilitate the clearance and settlement of securities transactions among DTC Participants.

“EMMA” means the Electronic Municipal Market Access System.

“Escrow Agreement” means an agreement referred to in Section 15.02 of this Ordinance.

“Event of Default” means any event of default as described in Section 11.01 of this Ordinance.

“Financial Obligation” means a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided that “financial obligation” shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

“Fiscal Year” means the twelve (12) month accounting period used by the City in connection with the operations of the System which may be any twelve (12) consecutive month period established by the City.

“Fund” means any of the funds, accounts or a portion of a fund or account, confirmed and/or established pursuant to Article VII hereof.

“General Reserve Fund” has the meaning assigned in Section 7.01 hereof.

“General Reserve Fund Requirement” means an amount equal to the lesser of (i) the maximum annual debt service (calculated on a Fiscal Year basis) for all Outstanding Covered Parity Bonds, as determined on the date of issuance of each series or installment of Additional Bonds issued as Covered Parity Bonds, and annually following each principal payment date or redemption date for the Covered Parity Bonds, as the case may be, or (ii) the maximum amount in a reasonably required reserve fund that can be invested without restriction as to yield pursuant to Subsection (d) of section 148 of the Code and regulations promulgated thereunder.

“Gross Proceeds” has the meaning stated in Section 1.148-1(b) of the Regulations.

“Initial Bond” means the initial bond or bonds authorized by Section 3.04 of this Ordinance.

“Interest Payment Date” means the date or dates on which interest on the Bonds is scheduled to be paid until their respective dates of maturity or prior redemption, as set forth in the Pricing Certificate.

“Investment” has the meaning stated in Section 1.148-1(b) of the Regulations.

“Issue Date” for each series of Bonds or other obligations of the City is the respective date on which such series of Bonds or other obligations of the City is delivered against payment therefor.

“MSRB” means the Municipal Securities Rulemaking Board.

“Net Revenues” means all income, revenues and receipts of every nature derived from and received by virtue of the operation of the System including interest income and earnings received from the investment of moneys in the special Funds created by this Ordinance or ordinances authorizing Parity Obligations, after deducting and paying, and making provisions for the payment of, current

expenses of maintenance and operation thereof, including all salaries, materials, repairs and extensions necessary to render efficient service; provided, however, only such expenses for repairs and extensions as in the judgment of the City Council reasonably and fairly exercised, are necessary to keep the System in operation and to render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair any obligations payable from Net Revenues of the System, shall be deducted in determining “Net Revenues”. Contractual payments for the purchase of water or the treatment of sewage shall be a maintenance and operating expense of the System to the extent provided in the contract incurred therefor and as may be authorized by law. Depreciation shall never be considered as an expense of operation and maintenance.

“Net Sale Proceeds” has the meaning stated in Section 1.148-1(b) of the Regulations.

“Nonpurpose Investment” has the meaning stated in Section 1.148-1(b) of the Regulations.

“Non-Recourse Debt” means any debt secured by a lien (other than a lien on Net Revenues), liability for which is effectively limited to the property subject to such lien with no recourse, directly or indirectly, to any other property of the City attributable to the Water and Wastewater System; provided, however, that such debt is being incurred in connection with the acquisition of property only, which property is not, at the time of such occurrence, owned by the City and being used in the operations of the City.

“Official Statement” means a document described in Section 8.01(c) prepared for dissemination to potential investors in connection with the public offering and sale of Bonds.

“Outstanding” when used in this Ordinance with respect to Parity Bonds, means, as of the date of determination, all Parity Bonds theretofore sold, issued and delivered by the City, except:

- (1) those Parity Bonds cancelled or delivered to the transfer agent or registrar for cancellation in connection with the exchange or transfer of such obligations;
- (2) those Parity Bonds paid or deemed to be paid in accordance with the provisions of Section 12.01 of this Ordinance; and
- (3) those Parity Bonds that have been mutilated, destroyed, lost, or stolen and replacement bonds have been registered and delivered in lieu thereof.

“Owner” means the person who is the registered owner of a Bond or Bonds, as shown in the Register.

“Parity Bonds” means any Previously Issued Bonds, the Bonds and Additional Bonds, if any.

“Parity Obligations” means all Parity Bonds, as well as any other obligations issued or incurred by the City that are determined and declared by the City Council of the City to be on a parity with the Parity Bonds, including obligations of the City issued or incurred under the terms of a Credit Facility.

“Paying Agent/Registrar” means the bank or trust company identified in the Paying Agent/Registrar Agreement referred to in Section 5.01 of this Ordinance, or any successor thereto as provided in this Ordinance.

“Preliminary Official Statement” means a document described in Section 8.01(c) prepared for dissemination to potential investors prior to the availability of the final Official Statement.

“Previously Issued Bonds” means Outstanding and unpaid revenue bonds payable from and secured by a first lien on and pledge of the Net Revenues of the System, which consist of the following: (i) City of Lubbock, Texas Water and Wastewater System Revenue Bonds, Series 2019 and (ii) City of Lubbock, Texas Water and Wastewater System Revenue Improvement and Refunding Bonds, Series 2019A.

“Pricing Certificate” means a certificate or certificates signed by an Authorized Officer establishing the terms and features of each series of Bonds in accordance with Section 8.01 hereof.

“Proceeds” has the meaning stated in Section 1.148-1(b) of the Regulations.

“Purchase Contract” means any contract, agreement or investment letter pursuant to which the Bonds of each series are sold to the Purchaser thereof.

“Purchaser” means the purchaser or purchasers of the Bonds of each series identified in the Pricing Certificate.



“Rebate Amount” has the meaning stated in Section 1.148-3 of the Regulations.

“Record Date” means the date specified in the Pricing Certificate.

“Refunding Candidates” means the obligations described in Schedule I attached hereto.

“Refunded Obligations” means the Refunding Candidates designated as Refunded Obligations in a Pricing Certificate.

“Register” means the register specified in Section 3.06(a) of this Ordinance.

“Regulations” means the final or temporary Income Tax Regulations applicable to obligations issued pursuant to Sections 141 through 150 of the Code. Any reference to a section of the Regulations shall also refer to any successor provision to such section hereafter promulgated by the Internal Revenue Service pursuant to Sections 141 through 150 of the Code and applicable to the Bonds.

“Representation Letter” means the Blanket Letter of Representations between the City and DTC.

“Reserve Fund Obligations” means cash or investment securities of any of the type or types permitted under Sections 7.04 and 7.09 of this Ordinance (in the case of the General Reserve Fund) or Sections 7.05 and 7.09 of this Ordinance (in the case of the TWDB Reserve Fund).

“Reserve Funds” has the meaning assigned in Section 7.01 hereof.

“Rule” means SEC Rule 15c2-12, as amended from time to time.

“SEC” means the United States Securities and Exchange Commission.

“Bonds” means the bonds authorized to be issued by Section 3.01 of this Ordinance.

“Special Payment Date” means the special payment date prescribed by Section 3.03(b).

“Special Record Date” means the special record date prescribed by Section 3.03(b).

“Subordinate Obligations” means any debt secured by or payable in whole or in part from revenues of the System or any portion thereof which expressly provides that all payments thereon shall be subordinated to the timely payment of all Parity Obligations then outstanding or subsequently issued.

“System” or “Water and Wastewater System” means the City’s combined water and wastewater system, including all properties and interests in properties (real, personal or mixed and tangible or intangible, including contract rights, water rights and permits) owned, operated, maintained, and vested in, the City for the supply, storage, treatment and distribution of treated water for municipal, domestic, commercial, industrial and other uses and the collection and treatment of watered wastes, together with all future additions, extensions, replacements and improvements thereto; provided that, notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term Water and Wastewater System shall not include any water or wastewater facilities that are declared not to be a part of the Water and Wastewater System and are acquired or constructed by the City with the proceeds from the issuance of “Special Facilities Bonds,” which are hereby defined as being special revenue obligations of the City which are not secured by or payable from the Net Revenues as defined herein, but which are secured by and payable solely from special contract revenues or payments received from any other legal entity in connection with such facilities, and thus constitute Non-Recourse Debt; and such revenues or payments shall not be considered as or constitute gross revenues of the Water and Wastewater System, unless and to the extent otherwise provided in the ordinance or ordinances authorizing the issuance of such “Special Facilities Bonds.”

“System Fund” has the meaning assigned in Section 7.01 hereof.

“Tax-Exempt Bonds” shall mean Bonds, the interest on which is excludable from gross income for federal income tax purposes, as determined and set forth in the Pricing Certificate therefor.

“Taxable Bonds” shall mean Bonds the interest on which is not excludable from gross income for federal income tax purposes, as determined and set forth in the Pricing Certificate therefor.

“Term Bonds” has the meaning set forth in Section 4.02 hereof.

“TWDB” means Texas Water Development Board.

“TWDB Bonds” means Parity Bonds owned by the Texas Water Development Board and designated as TWDB Bonds.

“TWDB Reserve Fund” has the meaning assigned in Section 7.01 hereof.

“TWDB Reserve Fund Requirement” means an amount equal to the lesser of (i) the average annual debt service (calculated on a Fiscal Year basis) for all Outstanding TWDB Bonds, as determined on the date of issuance of each series or installment of Additional Bonds issued as TWDB Bonds, and annually following each principal payment date or redemption date for TWDB Bonds, as the case may be, or (ii) the maximum amount in a reasonably required reserve fund that can be invested without restriction as to yield pursuant to Subsection (d) of section 148 of the Code and regulations promulgated thereunder.

“Unclaimed Payments” mean money deposited with the Paying Agent/Registrar for the payment of principal of, premium, if any, or interest on the Bonds as the same come due and payable and remaining unclaimed by the Owners of such Bonds after the applicable payment or redemption date.

“Yield of”

- (i) any Investment shall be computed in accordance with Section 1.148-5 of the Regulations, and
- (ii) the Bonds shall be computed in accordance with Section 1.148-4 of the Regulations.

**Findings.**

(a) The declarations, determinations and findings declared, made and found in the preamble to this Ordinance are hereby adopted, restated and made a part of the operative provisions hereof.

(b) The Water and Wastewater System shall be maintained in accordance with this Ordinance as long as the Bonds remain Outstanding.

(c) The Bonds are payable from and secured by a first lien on and pledge of the Net Revenues of the Water and Wastewater System.

(d) All conditions precedent to the issuance of the Bonds have been or will be satisfied prior to delivery of the Bonds to the Purchasers.

(e) Each of the Bonds shall be deemed and construed to be a “Security”, and as such a negotiable instrument, within the meaning of Article 8 of the Texas Uniform Commercial Code.

(f) The provisions of this Ordinance shall constitute a contract between the City and the holder or holders from time to time of the Bonds and no change, variation or alteration of any kind of the provisions of this Ordinance may be made, unless as herein otherwise provided, until all of the Bonds shall have been paid as to both principal and interest.

**Pledge of Security.**

The Bonds are and shall be equally and ratably secured by and payable from a first lien on and pledge of the Net Revenues.

The City hereby covenants and agrees that all of the Net Revenues derived from the operation of the System, with the exception of Net Revenues in excess of the amounts required to establish and maintain the special Funds created for the payment and security of the Parity Obligations, are hereby irrevocably pledged for the payment of the Parity Obligations (including the Bonds) and the interest thereon, and it is hereby ordained that the Parity Obligations (including the Bonds) and the interest thereon, shall constitute a first lien on the Net Revenues of the System and be valid and binding without any physical delivery thereof or further act by the City as provided in Chapter 1208, Texas Government Code, as amended.

**Limited Obligations.**

(a) The Bonds are special obligations of the City, payable solely from the pledged Net Revenues, and do not constitute a prohibited indebtedness of the City, and the Bonds shall never be payable out of funds raised or to be raised by taxation.

(b) The Net Revenues shall not in any manner be pledged to the payment of any debt or obligation of the City or the System, other than Parity Obligations, except on a subordinate lien basis.

**Security Interest.**

Chapter 1208 applies to the issuance of the Bonds and the pledge of the Net Revenues granted by the City under Section 2.01 hereof, and such pledge is therefore valid, effective, and perfected. If Texas law is amended at any time while the Bonds are outstanding and unpaid such that the pledge of the Net Revenues granted by the City is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, then in order to preserve to the registered owners of the Bonds the perfection of the security interest in said pledge, the City agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, Texas Business & Commerce Code, and enable a filing to perfect the security interest in said pledge to occur.

**Segregation of Revenues/Fund Designations.**

All receipts, revenues and income derived from the operation and ownership of the System shall be kept separate from other funds of the City and deposited within twenty-four (24) hours after collection into the "Water and Wastewater System Fund" (hereinafter referred to as the "System Fund") which has been created and established on the books of the City. The System Fund shall continue to be kept and maintained at an official depository bank of the City while the Parity Obligations remain Outstanding. Furthermore, the City affirms that the following special funds have been created and established and such funds shall continue to be maintained by the City while any Parity Obligations (including the Bonds) remain Outstanding: the "Special Water and Wastewater System Revenue Bond Fund" (hereinafter referred to as the "Bond Fund"), the "Special Water and Wastewater System Revenue Bond General Reserve Fund" (hereinafter referred to as the "General Reserve Fund") and the "Special Water and Wastewater System Revenue Bond TWDB Reserve Fund" (herein after referred to as the "TWDB Reserve Fund" and, together with the General Reserve Fund, the "Reserve Funds"). The Bond Fund, the General Reserve Fund and the TWDB Reserve Fund shall continue to be kept and maintained at the City's official depository bank, and moneys deposited therein shall be used for no purpose other than for the payment, redemption and retirement of Parity Obligations, as herein provided. The City may provide for the creation of any special Accounts deemed necessary or appropriate for the efficient administration of the System and payment of Parity Obligations.

**System Fund.**

The City hereby covenants and agrees with the owners of the Bonds that the moneys deposited in the System Fund shall be used first for the payment of the reasonable and proper expenses of operating and maintaining the System. All moneys deposited in the System Fund in excess of the amounts required to pay operating and maintenance expenses of the System shall be applied and appropriated, to the extent required and in the order of priority prescribed, as follows:

First: To the payment of the amounts required to be deposited in the Bond Fund for the payment of Parity Obligations, including the principal of and interest on the Parity Bonds as the same become due and payable;

Second: To the payment, equally and ratably, of the amounts required to be deposited in the Reserve Funds to accumulate, restore and maintain the amounts required to be deposited therein;

Third: To the payment of Subordinate Obligations, including the payment of amounts required to maintain any special funds created to secure payment of Subordinate Obligations; and

Fourth: For any other purpose of the City now or hereafter permitted by law.

**Bond Fund.**

The City hereby agrees and covenants to deposit to the Bond Fund an amount equal to one hundred percent (100%) of the amount required to fully pay all Parity Obligations as such payments mature and become due, including the amount required to pay the principal of and interest on the Bonds on or before each maturity date and Interest Payment Date therefor, such payments to be made in substantially equal monthly installments on or before the first day of each month beginning on or before the first day of the month next following the month the Bonds are delivered to the Purchasers. The required monthly deposits to the Bond Fund for the payment of principal of and interest on the Bonds shall continue to be made as hereinabove provided until such time as (i) the total amount on deposit in the Bond Fund, together with the amount deposited in the Reserve Funds, is equal to the amount required to fully pay and discharge all Outstanding Parity Obligations, including Parity Bonds (principal and interest), or (ii) the Bonds are no longer Outstanding. Accrued interest, if any, received from the purchasers of the Bonds shall be deposited in the Bond Fund, and shall be taken into consideration and reduce the amount of the monthly deposits hereinabove required which would otherwise be required to be deposited in the Bond Fund from the Net Revenues of the System.

### **General Reserve Fund.**

(a) The City covenants and agrees to accumulate and maintain Reserve Fund Obligations in the General Reserve Fund equal to not less than the General Reserve Fund Requirement which shall be calculated and predetermined at the time of issuance of each series or installment of Covered Parity Bonds. Upon issuance of Additional Bonds designated as Covered Parity Bonds, the General Reserve Fund Requirement shall be increased, if required, to an amount equal to the General Reserve Fund Requirement after taking into account such Additional Bonds. The General Reserve Fund shall be made available for and reasonably employed to pay principal of and interest on Covered Parity Bonds in the event that amounts in the Bond Fund are insufficient for such purpose. If any amount of the General Reserve Fund is employed to pay principal of or interest on Covered Parity Bonds and, after disbursement of such amounts for such purpose, the amount on deposit in the General Reserve Fund is less than the General Reserve Fund Requirement, or if an event of default under any Credit Facility held in the General Reserve Fund has occurred and is continuing, the General Reserve Fund Requirement shall be restored from Net Revenues in twenty-four (24) approximately equal monthly payments from the first available Net Revenues in the System Fund, subject only to (and in accordance with) the priority of payments hereinabove prescribed in Section 7.02.

(b) The City may, at its option, withdraw all surplus on deposit in the General Reserve Fund over the General Reserve Fund Requirement and deposit the same in the System Fund; provided, however, that to the extent such surplus monies constitute bond proceeds, including interest and income derived therefrom, such amounts shall not be deposited to the System Fund and shall only be used for the purposes for which bond proceeds may be used.

(c) For the purpose of determining compliance with the requirements of subsections (a) and (b) of this Section 7.04, Reserve Fund Obligations shall be valued each year as of the last day of the Fiscal Year at their market value, except that any direct obligations of the United States (State and Local Government Series) held for the benefit of the Reserve Fund in book-entry form shall be continuously valued at their par value or face principal amount.

(d) To the extent permitted by and in accordance with applicable law, the City may replace or substitute a Credit Facility for cash or investment securities on deposit in the General Reserve Fund or in substitution or replacement of any existing Credit Facility. Upon such replacement or substitution, cash or investment securities of any of the types permitted by Section 7.09 hereof on deposit in the General Reserve Fund, which (taken together with the face amount of any existing Credit Facilities) are in excess of the General Reserve Fund Requirement may be withdrawn by the City, at its option, and transferred to the System Fund; provided that the face amount of any Credit Facility may be reduced at the option of the City in lieu of such transfer. However, to the extent such surplus monies constitute bond proceeds, including interest and income derived therefrom, such amounts shall not be deposited to the System Fund and shall only be used for the purposes for which bond proceeds may be used.

(e) If the City is required to make a withdrawal from the General Reserve Fund, the City shall promptly notify the issuer of any Credit Facility of the necessity for a withdrawal from the General Reserve Fund, and shall make such withdrawal first from available moneys or investment securities then on deposit in the General Reserve Fund, and next from a drawing under any Credit Facility to the extent of such deficiency.

(f) In the event of a deficiency in the General Reserve Fund (including a deficiency resulting in whole or in part from termination or expiration of a Credit Facility or an event of default under a Credit Facility), the City shall restore such deficiency from the first available Net Revenues of the System in the System Fund, subject only to (and in accordance with) the priority of payments hereinabove prescribed in Section 7.02, in twenty-four (24) approximately equal monthly payments.

(g) In the event of the redemption or defeasance of any of the Outstanding Covered Parity Bonds, any Reserve Fund Obligations on deposit in the General Reserve Fund in excess of the General Reserve Fund Requirement may be withdrawn and transferred, at the option of the City and subject to the last sentence of this subparagraph (g), to the System Fund, as a result of (i) the redemption of the Outstanding Covered Parity Bonds, or (ii) funds for the payment of the Outstanding Covered Parity Bonds having been deposited irrevocably with the paying agent or place of payment therefor in the manner described in this Ordinance, the result of such deposit being that such Covered Parity Bonds no longer are deemed to be Outstanding under the terms of this Ordinance. However, to the extent such surplus monies constitute bond proceeds, including interest and income derived therefrom, such amounts shall not be deposited to the System Fund and shall only be used for the purposes for which bond proceeds may be used.

(h) In the event there is a draw upon a Credit Facility, the City shall reimburse the issuer of such Credit Facility for such draw in accordance with the terms of any agreement pursuant to which the Credit Facility is issued from Net Revenues; however, such reimbursement from Net Revenues shall be (i) subject to the provisions of subparagraph (f) hereof, and (ii) subordinate and junior in right of payment to the payment of principal of and premium, if any, and interest on the Parity Bonds. Any interest due on any reimbursement obligation under the Credit Facility shall not exceed the highest lawful rate of interest which may be paid by the City.

(i) Notwithstanding anything to the contrary contained in this Ordinance, the requirement set forth above in this Section 7.04 to maintain the General Reserve Fund shall be suspended for such time as the Net Revenues for each Fiscal Year are equal to at least 1.25 times the maximum annual debt service requirements of all Outstanding Parity Bonds. In the event that the Net Revenues for any Fiscal Year are less than 1.25 times the maximum annual debt service requirements of all Outstanding Parity Bonds, the City will be required to commence making deposits to the General Reserve Fund, as provided in subsection (f) above, and to continue such deposits until the earlier of (i) such time as the General Reserve Fund contains the General Reserve Fund Requirement or (ii) the end of any period of two consecutive Fiscal Years during which Net Revenues were equal to not less than 1.25 times the maximum annual debt service requirements of all Outstanding Parity Bonds.

During such time as the obligation to maintain the General Reserve Fund Requirement in the General Reserve Fund has been suspended pursuant to this subsection (i), the City may, at its option, withdraw all monies from the General Reserve Fund and deposit such surplus in the System Fund; provided, however, to the extent such monies constitute bond proceeds, including interest and income derived therefrom, such amounts shall not be deposited to the System Fund and shall only be used for the purposes for which bond proceeds may be used.

#### **TWDB Reserve Fund.**

(a) The City covenants and agrees to accumulate and maintain Reserve Fund Obligations in the TWDB Reserve Fund equal to not less than the TWDB Reserve Fund Requirement which shall be calculated and predetermined at the time of issuance of each series or installment of TWDB Bonds. The City covenants and agrees that the TWDB Reserve Fund Requirement in connection with the issuance of each series of TWDB Bonds shall be accumulated in equal monthly installments over the initial sixty (60) months following the initial delivery of such series of TWDB Bonds. Upon issuance of Additional Bonds designated as TWDB Bonds, the TWDB Reserve Fund Requirement shall be increased, if required, to an amount equal to the TWDB Reserve Fund Requirement after taking into account such Additional Bonds. The TWDB Reserve Fund shall be made available for and reasonably employed to pay principal of and interest on TWDB Bonds in the event that amounts in the Bond Fund are insufficient for such purpose. If any amount of the TWDB Reserve Fund is employed to pay principal of or interest on TWDB Bonds and, after disbursement of such amounts for such purpose, the amount on deposit in the TWDB Reserve Fund is less than the TWDB Reserve Fund Requirement, or if an event of default under any Credit Facility held in the TWDB Reserve Fund has occurred and is continuing, the TWDB Reserve Fund Requirement shall be restored from Net Revenues in twenty-four (24) approximately equal monthly payments from the first available Net Revenues in the System Fund, subject only to (and in accordance with) the priority of payments hereinabove prescribed in Section 7.02.

(b) The City may, at its option, withdraw all surplus on deposit in the TWDB Reserve Fund over the TWDB Reserve Fund Requirement and deposit the same in the System Fund; provided, however, that to the extent such surplus monies constitute bond proceeds, including interest and income derived therefrom, such amounts shall not be deposited to the System Fund and shall only be used for the purposes for which bond proceeds may be used.

(c) For the purpose of determining compliance with the requirements of subsections (a) and (b) of this Section 7.05, Reserve Fund Obligations shall be valued each year as of the last day of the Fiscal Year at their market value, except that any direct obligations of the United States (State and Local Government Series) held for the benefit of the Reserve Fund in book-entry form shall be continuously valued at their par value or face principal amount.

(d) To the extent permitted by and in accordance with applicable law, the City may replace or substitute a Credit Facility for cash or investment securities on deposit in the TWDB Reserve Fund or in substitution or replacement of any existing Credit Facility. Upon such replacement or substitution, cash or investment securities of any of the types permitted by Section 7.09 hereof on deposit in the TWDB Reserve Fund, which (taken together with the face amount of any existing Credit Facilities) are in excess of the TWDB Reserve Fund Requirement may be withdrawn by the City, at its option, and transferred to the System Fund; provided that the face amount of any Credit Facility may be reduced at the option of the City in lieu of such transfer. However, to the extent such surplus monies constitute bond proceeds, including interest and income derived therefrom, such amounts shall not be deposited to the System Fund and shall only be used for the purposes for which bond proceeds may be used.

(e) If the City is required to make a withdrawal from the TWDB Reserve Fund, the City shall promptly notify the issuer of any Credit Facility of the necessity for a withdrawal from the TWDB Reserve Fund, and shall make such withdrawal first from available moneys or investment securities then on deposit in the TWDB Reserve Fund, and next from a drawing under any Credit Facility to the extent of such deficiency.

(f) In the event of a deficiency in the TWDB Reserve Fund (including a deficiency resulting in whole or in part from termination or expiration of a Credit Facility or an event of default under a Credit Facility), the City shall restore such deficiency from the first available Net Revenues of the System in the System Fund, subject only to (and in accordance with) the priority of payments hereinabove prescribed in Section 7.02, in twenty-four (24) approximately equal monthly payments.

(g) In the event of the redemption or defeasance of any of the Outstanding TWDB Bonds, any Reserve Fund Obligations on deposit in the TWDB Reserve Fund in excess of the TWDB Reserve Fund Requirement may be withdrawn and transferred, at the option of the City and subject to the last sentence of this subparagraph (g), to the System Fund, as a result of (i) the redemption of the Outstanding TWDB Bonds, or (ii) funds for the payment of the Outstanding TWDB Bonds having been deposited irrevocably with the paying agent or place of payment therefor in the manner described in this Ordinance, the result of such deposit being that such TWDB Bonds no longer are deemed to be Outstanding under the terms of this Ordinance. However, to the extent such surplus monies constitute bond proceeds, including interest and income derived therefrom, such amounts shall not be deposited to the System Fund and shall only be used for the purposes for which bond proceeds may be used.

(h) In the event there is a draw upon a Credit Facility, the City shall reimburse the issuer of such Credit Facility for such draw in accordance with the terms of any agreement pursuant to which the Credit Facility is issued from Net Revenues; however, such reimbursement from Net Revenues shall be (i) subject to the provisions of subparagraph (f) hereof, and (ii) subordinate and junior in right of payment to the payment of principal of and premium, if any, and interest on the Parity Bonds. Any interest due on any reimbursement obligation under the Credit Facility shall not exceed the highest lawful rate of interest which may be paid by the City.

#### **Payment of Bonds.**

While any of the Bonds are Outstanding, the proper officers of the City are hereby authorized to transfer or cause to be transferred to the Paying Agent/Registrar, from funds on deposit in the Bond Fund and, if necessary, the Reserve Fund amounts sufficient to fully pay and discharge promptly each installment of interest and principal on the Bonds as such installments mature and come due; such transfer of funds to be made in such manner as will cause immediately available funds to be deposited with the Paying Agent/Registrar for the Bonds at the close of the Business Day next preceding the date of payment for the Bonds.

#### **Deficiencies in Funds.**

If in any month the City shall, for any reason, fail to pay into any Fund the full amounts above stipulated, amounts equivalent to such deficiencies shall be set apart and paid into such Fund from the first available and unallocated Net Revenues of the System, subject to the priority of payments prescribed in Section 7.02, in the following month or months and such payments shall be in addition to the amounts hereinabove provided to be otherwise paid into such Fund during such month or months.

#### **Security and Investment of Funds.**

(a) All Funds and Accounts shall be secured in the manner and to the fullest extent required by law for the security of public funds, including Chapter 2257, Texas Government Code, as amended, and the funds created by the Ordinance shall be used only for the purposes therein specified.

(b) Money in any Fund or Account established or affirmed pursuant to this Ordinance or any ordinance authorizing the issuance of Parity Obligations, may, at the option of the City, be invested in time deposits or certificates of deposit secured in the manner required by law for public funds, or be invested in direct obligations of, including obligations the principal and interest on which are unconditionally guaranteed by, the United States of America, in obligations of any agencies or instrumentalities thereof, or in such other investments as are permitted under the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended, or any successor law, as in effect from time to time, consistent with the City's investment policy; provided that all such deposits and investments shall be made in such manner (which may include repurchase agreements for such investment with any primary dealer of such agreements) that the money required to be expended from any such Fund will be available at the proper time or times. Such investments shall be valued each year in terms of current market value as of the last day of the Fiscal Year. For purposes of maximizing investment returns, to the extent permitted by law, money in such Funds may be invested in common investments of the kind described above, or in a common pool of such investment which shall be kept and held at an official depository bank, which shall not be deemed to be or constitute a commingling of such money or funds provided that safekeeping receipts or certificates of participation clearly evidencing the investment or investment pool in which such money is invested and the share thereof purchased with such money or owned by such fund are held by or on behalf of each such Fund. If necessary, such investments shall be promptly sold to prevent any default. Any investment made with money deposited to the credit of a Reserve Fund shall not have a maturity in excess of five (5) years.

#### **Excess Revenues.**

All revenues of the System in excess of those required to establish and maintain the Bond Fund and the Reserve Funds as required herein may be used for any proper City purpose now or hereafter permitted by law including, without limitation, pledging any excess revenues in support of Subordinate Obligations.

### **Issuance of Additional Bonds.**

(a) In addition to the right to issue obligations of inferior lien as authorized by the laws of the State of Texas, the City hereby reserves the right to issue Additional Bonds which, when duly authorized and issued in compliance with the terms and conditions hereinafter appearing, shall be on a parity with the Parity Obligations herein authorized (including the Bonds), payable from and equally and ratably secured by a first lien on and pledge of the Net Revenues of the System. The Additional Bonds may be issued in one or more series or installments, provided, however, that none shall be issued unless and until the following conditions have been met:

(i) The City is not then in default as to any covenant, condition or obligation prescribed by any ordinance authorizing the issuance of Parity Obligations then Outstanding;

(ii) Each of the special Funds created for the payment and security of the Parity Obligations contains the amount of money and investments then required to be on deposit therein;

(iii) With respect to Covered Parity Bonds, the General Reserve Fund Requirement shall be accumulated and supplemented as necessary to maintain therein the General Reserve Fund Requirement (unless the obligation to maintain the General Reserve Fund Requirement is suspended pursuant to subsection 7.04(i)) and, with respect to TWDB Bonds, the TWDB Reserve Fund Requirement shall be accumulated and supplemented as necessary to maintain therein the TWDB Reserve Fund Requirement; the ordinance authorizing the issuance of the Additional Bonds shall provide for any required increase in the General Reserve Fund or the TWDB Reserve Fund, as applicable, and (if supplementation is necessary to meet all conditions of said Reserve Funds) said ordinance shall make provision that same be supplemented by the required amounts in equal monthly installments from the date of delivery of such Additional Bonds, as provided by this Ordinance;

(iv) The Chief Financial Officer shall provide a certificate to the effect that, according to the books and records of the City, during the last completed Fiscal Year, or during any consecutive twelve (12) month period of the last fifteen (15) months next preceding the date of delivery of the Additional Bonds, the Net Revenues of the System were equal to at least 1.25 times the maximum annual debt service requirements of the Parity Bonds which will be outstanding upon the issuance of the Additional Bonds. In making a determination of the Net Revenues, the Chief Financial Officer may take into consideration a change in the charges for services afforded by the System that became effective at least 60 days prior to the last day of the period for which Revenues are determined and, for purposes of satisfying the above Net Revenues test, make a pro-forma determination of the Net Revenues of the System for the period of time covered by the certificate based on such change in charges being in effect for the entire period covered by the certificate of the Chief Financial Officer.

When thus issued, such Additional Bonds may be secured by a pledge of the Net Revenues of the System on a parity in all things with the pledge securing the Parity Bonds.

(b) Wherever, in this Ordinance, the City reserves the right to issue Additional Bonds, such term shall also include, mean and refer to any other forms or types of obligations which may be made lawfully payable from and secured by the same source of revenues of the City.

(c) If Additional Bonds are being issued for the purpose of refunding less than all outstanding Parity Bonds, the certification described in subsection (a)(iv) of this Section is not required so long as the aggregate debt service requirements of such refunding Parity Bonds (or Parity Obligations) will not exceed the aggregate debt service requirements of the Parity Bonds being refunded.

### **Credit Facilities.**

Payments to be made under a Credit Facility may be treated as Parity Obligations if the governing body of the City makes a finding in the ordinance authorizing the execution and delivery of such Credit Facility that the obligations of the City incurred under the Credit Facility shall be treated as a Parity Obligation and that, based upon the findings contained in a certificate executed and delivered by the Chief Financial Officer, the City will have sufficient funds to meet the financial obligations of the System, including sufficient Net Revenues to satisfy the annual debt service requirements of the System and the financial obligations of the City relating to the System after giving effect to the treatment of the Credit Facility as a Parity Obligation.

### **Separately Financed Projects.**

The City expressly retains the right to issue or incur bonds, notes, or other obligations or evidences of indebtedness, other than Parity Obligations, for any project or purpose for goods or services other than the supply, storage, treatment and distribution of treated water for municipal, domestic, commercial, industrial and other uses and the collection and treatment of watered wastes, which presently are or hereafter may be authorized or permitted to be provided or maintained by water and wastewater systems generally or

the City specifically under the laws of the State of Texas, federal law or the City's home rule charter; provided, that the bonds, notes or other obligations issued or incurred for any such separately financed project are payable from and secured by other available funds derived from the ownership or operation thereof or excess Net Revenues remaining after satisfying, or making provision for the satisfaction of, the priority of claims identified on such Net Revenues in Section 7.02 hereof and separate books and records for such separately financed project or activity are maintained by the City.

**Rates and Charges.**

The City shall, at all times while any of the Parity Obligations are outstanding and unpaid, maintain rates and collect charges for the facilities and services afforded by the Water and Wastewater System, as required by Section 1502.057, Texas Government Code, which will provide revenues sufficient at all times to:

- (a) pay all maintenance, operation, debt service, depreciation, replacement and betterment charges of the Water and Wastewater System;
- (b) pay the amounts required to be deposited to the Bond Fund to pay the principal of and interest on the Parity Bonds as the same becomes due and payable, to accumulate and maintain the reserve amount, if any, required to be deposited in the Reserve Fund, and to pay any other costs of Parity Obligations as the same becomes due and payable;
- (c) produce Net Revenues each year in an amount reasonably estimated to be not less than 1.25 times the maximum annual debt service requirements of the Parity Bonds from time to time outstanding; and
- (d) pay any other legally incurred indebtedness payable from the revenues of the System and/or secured by a lien on the System or the revenues thereof.

**Maintenance and Operation; Insurance.**

The City shall maintain the Water and Wastewater System in good condition and operate the same in an efficient manner and at reasonable cost. So long as any Parity Bonds are outstanding, the City agrees to carry and maintain liability and property damage insurance of the kind and in the amounts customarily carried by municipal corporations in Texas on such kind of properties; provided, however, the City, in lieu of and/or in combination with carrying such insurance, may self-insure against all perils and risks by establishing self-insurance reserves.

**Records, Accounts, Accounting Reports.**

The City hereby covenants and agrees while any of the Bonds or any interest thereon remain Outstanding and unpaid, it will keep and maintain a proper and complete system of records and accounts pertaining to the operation of the System separate and apart from all other records and accounts of the City in accordance with generally accepted accounting principles prescribed for municipal corporations, and complete and correct entries shall be made of all transactions relating to said System, as provided by applicable law. The Owner of any Bonds, or any duly authorized agent or agents of such Owner, shall have the right at all reasonable times to inspect all such records, accounts and data relating thereto and to inspect the System and all properties comprising the same. The City further agrees that as soon as possible following the close of each Fiscal Year, it will cause an audit of such books and accounts to be made by an independent firm of certified public accountants. Each such audit, in addition to whatever other matters may be thought proper by the certified public accountant, shall particularly include the following:

- (a) A detailed statement of the income and expenditures of the System for such Fiscal Year;
- (b) A balance sheet as of the end of such Fiscal Year;
- (c) The comments of such accountant regarding the manner in which the City has complied with the covenants and requirements of this Ordinance and his recommendations for any changes or improvements in the operation, records and accounts of the System;
- (d) A list of the insurance policies in force at the end of the Fiscal Year on the System properties, setting out as to each policy the amount thereof, the risk covered, the name of the insurer, and the policy's expiration date.

Expenses incurred in making the audits above referred to are to be regarded as maintenance and operating expenses of the System and paid as such. Copies of the aforesaid annual audit shall be furnished upon written request to the original purchasers and any subsequent Owners of the Bonds.



**Further Covenants.**

The City hereby further covenants and agrees as follows:

(a) That it has the lawful power to pledge the Net Revenues to the payment of the Bonds and has lawfully exercised said power under the Constitution and laws of the State of Texas; that the Bonds, when issued, shall be equally and ratably secured by a first lien on and pledge of the Net Revenues *pari passu* with the lien securing payment of all other Parity Obligations in such manner that no Parity Obligation shall have preference or priority over the Bonds.

(b) That, other than for the payment of Parity Obligations, the Net Revenues are and shall not in any manner be pledged to the payment of any debt or obligation of the City or of the System on a parity with the Bonds.

(c) So far as it legally may, the City covenants and agrees, for the protection and security of the Parity Bonds and the holders thereof from time to time, that it will not grant a franchise for the operation of any competing system in the City until all Parity Bonds shall have been retired.

(d) That, for so long as any of the Bonds or any interest thereon remain Outstanding, the City will not sell, lease or encumber the System or any substantial part thereof; provided, however, this covenant shall not be construed to prohibit the sale of such machinery, or other properties or equipment which has become obsolete or otherwise unsuited to the efficient operation of the System when other property of equal value has been substituted therefor, and, also, with the exception of the Additional Bonds expressly permitted by this Ordinance to be issued, it will not encumber the Net Revenues unless such encumbrance is made junior and subordinate to all of the provisions of this Ordinance. In the event the City sells the System, the City will use proceeds of such sale to provide for final payment of the Parity Obligations and any Additional Bonds.

(e) That, it will cause to be rendered monthly to each customer receiving water and wastewater services a statement therefor and will not accept payment of less than all of any statement so rendered, using its power under existing ordinances and under all such ordinances to become effective in the future to enforce payment, to withhold service from such delinquent customers and to enforce and authorize reconnection charges.

(f) That it will faithfully and punctually perform all duties with respect to the System required by the Constitution and laws of the State of Texas, including the making and collecting of reasonable and sufficient rates for services supplied by the System, and the segregation and application of the revenues of the System as required by the provisions of this Ordinance.

(g) That no free service shall be provided by the System and to the extent the City or its departments or agencies utilize the services provided by the System, payment shall be made therefor at rates charged to others for similar service.

(h) That it will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained in this Ordinance; the City will promptly pay or cause to be paid the principal of, premium, if any, and interest on each Series 2019A Bond on the dates and at the places and manner prescribed in such Bond; and the City will, at the times and in the manner prescribed by this Ordinance, deposit or cause to be deposited the amounts of money specified by this Ordinance.

**Events of Default.**

Each of the following occurrences or events for the purpose of this Ordinance is hereby declared to be an Event of Default:

(a) defaults in payments to be made to the Bond Fund as required by this Ordinance;

(b) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in this Ordinance.

Section 1.02 **Remedies for Default.**

(a) Upon the happening of any Event of Default, then any Owner or an authorized representative thereof, including but not limited to, a trustee or trustees therefor, may proceed against the City for the purpose of protecting and enforcing the rights of the Owners under this Ordinance and shall be entitled to a writ of mandamus issued by a court of proper jurisdiction compelling and requiring the City Council and other officers of the City to observe and perform any covenant, condition or obligation prescribed in this Ordinance.

(b) It is provided that all such proceedings shall be instituted and maintained for the equal benefit of all Owners of Bonds then Outstanding.

**Remedies Not Exclusive.**

(a) No remedy herein conferred or reserved is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or under the Bonds or now or hereafter existing at law or in equity; provided, however, that notwithstanding any other provision of this Ordinance, the right to accelerate the debt evidenced by the Bonds shall not be available as a remedy under this Ordinance.

(b) The exercise of any remedy herein conferred or reserved shall not be deemed a waiver of any other available remedy.

No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power, or shall be construed to be a waiver of any such default or acquiescence therein, and every such right or power may be exercised from time to time and as often as may be deemed expedient.

**Discharge.**

Except as otherwise provided in the Pricing Certificate, the Bonds may be defeased, discharged or refunded in any manner permitted by applicable law.

**Amendment of Ordinance.**

(a) That the holders of the Parity Bonds aggregating a majority in principal amount of then outstanding Parity Bonds shall have the right from time to time to approve any amendment to this Ordinance which may be deemed necessary or desirable by the City; provided, however, that without the consent of the holders of all of the Parity Bonds at the time outstanding, nothing herein contained shall permit or be construed to permit the amendment of the terms and conditions in this Ordinance or in the Bonds so as to: (i) make any change in the maturity of the outstanding Bonds; (ii) reduce the rate of interest borne by any of the outstanding Bonds; (iii) reduce the amount of the principal payable on the outstanding Bonds; (iv) modify the terms of payment of principal or interest on the outstanding Bonds or impose any conditions with respect to such payment; (v) affect the rights of the holders of less than all of the Bonds then outstanding; or (vi) change the minimum percentage of the principal amount of Bonds necessary for consent to such amendment.

(b) That if at any time the City shall desire to amend the Ordinance under this Section, the City shall cause notice of the proposed amendment to be (i) posted on the MSRB's EMMA system or (ii) published in a financial newspaper or journal published in The City of New York, New York, once during each calendar week for at least two (2) successive calendar weeks; provided, however, that the publication of such notice shall not constitute a condition precedent to the adoption of such amendatory ordinance and the failure to post or publish such notice shall not adversely affect the implementation of such amendment as adopted pursuant to such amendatory ordinance. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the principal office of the Paying Agent/Registrar for inspection by all holders of Bonds. Such publication is not required, however, if notice in writing is given to each holder of Bonds.

(c) That whenever at any time not less than thirty (30) days, and within one year, from the date of the first posting or publication of said notice or other service of written notice the City shall receive an instrument or instruments executed by the holders of at least a majority in aggregate principal amount of all Bonds then outstanding, which instrument or instruments shall refer to the proposed amendment described in said notice and which specifically consent to and approve such amendment in substantially the form of the copy thereof on file with the Paying Agent/Registrar, the City Council may pass the amendatory ordinance in substantially the same form.

(d) That upon the passage of any amendatory ordinance pursuant to the provisions of this Section, this Ordinance shall be deemed to be amended in accordance with such amendatory ordinance, and the respective rights, duties and obligations under this Ordinance of the City and all the holders of then outstanding Bonds shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such amendments.

(e) That any consent given by the holder of a Bond pursuant to the provisions of this Section shall be irrevocable for a period of six (6) months from the date of the first publication of the notice provided for in this Section, and shall be conclusive and binding upon all future holders of the same Bond during such period. Such consent may be revoked at any time after six (6) months from the date of the first publication of such notice by the holder who gave such consent, or by a successor in title, by filing notice thereof with the Paying Agent/Registrar therefor and the City, but such revocation shall not be effective if the holders of a majority in aggregate principal amount of the then outstanding Bonds as in this Section defined have, prior to the attempted revocation, consented to and approve the amendment.

(f) For the purposes of this Section, the ownership and other matters relating to all Bonds registered as to ownership shall be determined from the registration books kept by the registrar therefor. The Paying Agent/Registrar may conclusively assume that such ownership continues until written notice to the contrary is served upon the Paying Agent/Registrar.

(g) The foregoing provisions of this Section notwithstanding, the City by action of the City Council may amend this Ordinance for any one or more of the following purposes:

(i) To add to the covenants and agreements of the City in this Ordinance contained, other covenants and agreements thereafter to be observed, grant additional rights or remedies to bondholders or to surrender, restrict or limit any right or power herein reserved to or conferred upon the City;

(ii) To make such provisions for the purpose of clarifying matters or questions arising under this Ordinance, as are required by the Attorney General of Texas to obtain the Attorney General's approval of the issuance of the Bonds or required by the Purchaser before their issuance or for the purpose of curing any ambiguity, or curing, correcting or supplementing any defective provision contained in this Ordinance, or at any time before or after issuance, including, without limitation, those matters described in Section 13.04 hereof, as are necessary or desirable and not contrary to or inconsistent with this Ordinance, and in all events which shall not adversely affect the interests of the owners of the Bonds;

(iii) To modify any of the provisions of this Ordinance in any other respect whatsoever, provided that such modification shall be, and be expressed to be, effective only after all previously issued Parity Bonds outstanding at the date of the adoption of such modification shall cease to be outstanding;

(iv) To make such amendments to this Ordinance as may be required, in the opinion of Bond Counsel, to ensure compliance with sections 103 and 141 through 150 of the Code and the regulations promulgated thereunder and applicable thereto.

Notice of any such amendment may be posted or published by the City in the manner described in clause (b) of this Section; provided, however, that the publication of such notice shall not constitute a condition precedent to the adoption of such amendatory ordinance and the failure to post or publish such notice shall not adversely affect the implementation of such amendment as adopted pursuant to such amendatory ordinance.

(h) If any Section, paragraph, clause or provision of this Ordinance shall for any reason be held to be invalid, null, void, of no force and effect, then such provisions shall be construed as severable from the remainder of this Ordinance and shall not affect the validity of all other provision of this Ordinance which shall remain in full force and effect.

**APPENDIX D**  
**FORM OF BOND COUNSEL OPINION**



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October 30, 2019

We have acted as Bond Counsel for the City of Lubbock, Texas (the “City”), in connection with the issuance of its Water and Wastewater System Revenue Refunding Bonds, Taxable Series 2019B (the “Bonds”), dated October 15, 2019, in the aggregate principal amount of \$88,405,000. The Bonds are issuable in fully-registered form only, in denominations of \$5,000 or integral multiples thereof, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds, in the ordinance adopted by the City Council of the City on September 24, 2019 (the “Bond Ordinance”) authorizing the issuance of the Bonds, and in the pricing certificate dated as of October 8, 2019 (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. In such capacity we have examined the Constitution and laws of the State of Texas 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 Robert Thomas CPA, LLC, which verifies the sufficiency of the deposit made with the Escrow Agent for the defeasance of the Refunded Obligations; 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 special obligations of the City and are payable solely from a first lien on and pledge of the Net Revenues of the City's water and wastewater system. "Net Revenues" are the revenues to be derived from the operation of the City's water and wastewater system after the payment of all operation and maintenance expenses thereof, as described in the Ordinance; 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.

The City has reserved the right in the Ordinance to issue from time to time additional Parity Bonds and to incur Parity Obligations which are equally and ratably

October 30, 2019

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secured on parity with the Bonds and the Previously Issued Parity Bonds by a first lien on and pledge of the Net Revenues.

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.