OFFICIAL STATEMENT DATED JULY 17, 2018

RATINGS: Moody's Investors Service, Inc. "A1"
Standard & Poor's Ratings Services "AA-"
Fitch Ratings "A+"
See "RATINGS" herein

NEW ISSUE: BOOK-ENTRY-ONLY

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

City of Lubbock TEXAS

$93,925,000
CITY OF LUBBOCK, TEXAS
ELECTRIC LIGHT AND POWER SYSTEM
REVENUE BONDS, SERIES 2018

Dated: August 1, 2018 **Due: April 15, as shown on page ii**
(Interest accrues from the Delivery Date)

Principal of and interest on the $93,925,000 City of Lubbock, Texas Electric Light and Power System Revenue Bonds, Series 2018 (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. 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"), and is payable on October 15, 2018, and on each April 15 and October 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 Chapters 1371 and 1502, Texas Government Code, as amended, Article VIII of the Charter of the City, and an ordinance adopted by the City Council on June 28, 2018 (the "Ordinance") (see "THE BONDS – Authority for Issuance"). 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 Electric Light and Power 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) 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, if needed, and (iv) paying the costs of issuing the Bonds (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." Delivery of the Bonds through the facilities of DTC is expected to occur on or about August 16, 2018.

GOLDMAN SACHS & CO. LLC

CITIGROUP **J.P. MORGAN** **RAYMOND JAMES**

CUSIP Prefix: 549203[a]

MATURITY SCHEDULE

$93,925,000 Electric Light and Power System Revenue Bonds, Series 2018

Maturity 4/15	Principal Amount	Interest Rate	Initial Offering Yield[b][d]	CUSIP Suffix[a]
2019	$3,545,000	5.000%	1.460%	VR5
2020	2,985,000	5.000%	1.620%	VS3
2021	3,135,000	5.000%	1.790%	VT1
2022	4,210,000	5.000%	1.910%	VU8
2023	4,420,000	5.000%	2.030%	VV6
2024	4,640,000	5.000%	2.180%	VW4
2025	4,875,000	5.000%	2.330%	VX2
2026	5,115,000	5.000%	2.470%	VY0
2027	5,375,000	5.000%	2.600%	VZ7
2028	5,640,000	5.000%	2.700%	WA1
2029 [c]	1,915,000	5.000%	2.820%	WB9
2030 [c]	2,010,000	5.000%	2.920%	WC7
2031 [c]	2,110,000	5.000%	2.960%	WD5
2032 [c]	2,215,000	5.000%	3.010%	WE3
2033 [c]	2,325,000	5.000%	3.060%	WF0
2034 [c]	2,445,000	5.000%	3.100%	WG8
2035 [c]	2,565,000	5.000%	3.140%	WH6
2036 [c]	2,695,000	4.000%	3.430%	WJ2
2037 [c]	2,800,000	4.000%	3.470%	WK9
2038 [c]	2,915,000	5.000%	3.240%	WL7
2039 [c]	2,065,000	5.000%	3.260%	WM5
2040 [c]	2,170,000	5.000%	3.270%	WN3

(Interest accrues from Delivery Date)

$21,755,000 Term Bonds

$7,180,000 5.000% Term Bond maturing April 15, 2043, priced to yield 3.300%[b][c][d][e] WP8[a]

$14,575,000 5.000% Term Bond maturing April 15, 2048, priced to yield 3.350%[b][c][d][e] WQ6[a]

(Interest accrues from Delivery Date)

---

[a] 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.

[b] The initial offering yields were established by and are the sole responsibility of the Underwriters and may subsequently be changed.

[c] The Bonds maturing on and after April 15, 2029 are subject to redemption, at the option of the City, on April 15, 2028 or any date thereafter, at par value thereof plus accrued interest to the date of redemption (see "THE BONDS – Redemption Provisions").

[d] Yield on maturities on and after 2029 is shown to first call date, April 15, 2028.

[e] The Bonds maturing on April 15 in the years 2043 and 2048 (collectively, the "Term Bonds") are subject to mandatory sinking fund redemption prior to their scheduled maturity, and will be redeemed by the City, in part at a redemption price equal to the principal amount thereof, without premium, plus interest accrued to the redemption date, on the dates and in the principal amounts shown herein (see "THE BONDS – Redemption Provisions").

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.

TABLE OF CONTENTS

The cover page hereof, the section entitled "Official Statement Summary," this Table of Contents and Appendices A, B, C and D attached hereto are part of this Official Statement.

OFFICIAL STATEMENT SUMMARY

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

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

THE BONDS.. The City's $93,925,000 Electric Light and Power System Revenue Bonds, Series 2018 (the "Bonds") are dated August 1, 2018 and mature on April 15 in each of the years 2019 through 2040, inclusive, and on April 15, in each of the years 2043 and 2048 (the "Term Bonds").

PAYMENT OF INTEREST................ Interest on the Bonds accrues from the initial delivery date (the "Delivery Date"), and is payable October 15, 2018 and each April 15 and October 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 Chapters 1371 and 1502, Texas Government Code, as amended, Article VIII of the Charter of the City, and an ordinance adopted by the City Council on June 28, 2018 (the "Ordinance"). In the 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 (see "THE BONDS – Authority for Issuance").

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 Electric Light and Power 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 Bonds are subject to optional redemption prior to their scheduled maturities as described herein (see "THE BONDS – Redemption Provisions – *Optional Redemption*").

The Bonds scheduled to mature on April 15 in each of the years 2043 and 2048 are subject to scheduled mandatory sinking fund redemption at a price equal to the principal amount thereof, plus accrued interest to the redemption date, out of moneys available for such purpose under the terms of the Ordinance, on the dates and in the respective principal amounts as described herein (see "THE BONDS – Redemption Provisions – *Mandatory Redemption*").

RATINGS... The Bonds are rated "A1" by Moody's Investors Service, Inc., "AA-" by S&P Global Ratings, a Standard and Poor's Financial Services LLC business, and "A+" by Fitch Ratings (see "RATINGS").

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

USE OF PROCEEDS .... Proceeds from the sale of the Bonds will be used 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, if needed, and (iv) paying the costs of issuing the Bonds (see "THE BONDS – Purpose" and "SOURCES AND USES OF PROCEEDS").

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.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9-30	Estimated City Population[(a)]	System Data: Kilowatt Hours (kWh) to System	System Data: System Peak Demand kW	System Data: Electric Connections	Net Revenues Available for Revenue Debt	Annual Revenue Bond Debt Service Requirements	Historical Coverage of Annual Debt Service
2012	229,573	3,211,999,396	615,268	99,720	$30,364,149	$9,776,315	3.11x
2013	233,605	3,302,164,621	612,309	101,165	38,544,753	9,754,500	3.95x
2014	236,262	3,011,330,589	561,351	102,079	37,912,923	11,140,312	3.40x
2015	239,992	2,815,451,632	584,485	103,475	39,069,645	12,647,488	3.09x
2016	244,861	2,766,313,158	620,470	104,103	41,381,923	13,536,834	3.06x
2017	249,042	2,769,986,683	605,046	105,788	45,116,505	14,143,294	3.19x

[(a)] Source: Population estimates provided by the City based on year figure is available and used by the City for planning purpose.

For additional information regarding the City, please contact:

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

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

[The remainder of this page left intentionally blank.]

CITY AND SYSTEM OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS OF THE CITY

City Council	Position	Date of Installation of Office	Term Expires	Occupation
Daniel Pope	Mayor	May 2016	May 2020	Business Owner
Latrelle Joy	Mayor Pro Tem, District 6	May 2012	May 2020	Attorney
Juan Chadis	Council Member, District 1	June 2016	May 2020	Retired
Shelia Patterson Harris	Council Member, District 2	June 2016	May 2020	Retired
Jeff Griffith	Council Member, District 3	June 2014	May 2022	Business Owner
Steve Massengale	Council Member, District 4	May 2016	May 2020	Business Owner
Randy Christian	Council Member, District 5	May 2018	May 2022	Marketing Professional

BOARD OF DIRECTORS OF LUBBOCK POWER AND LIGHT

Board Member	Office	Date of Installation to Office	Term Expires	Occupation/Employer
Greg Taylor	Chairman	November 2013	November 2019	D. Williams & Co., P.C.
Don Boatman	Vice Chairman	November 2013	November 2019	Retired
James Conwright	Secretary	November 2013	November 2019	Vista Bank
Jerry Bell	Member	November 2013	November 2019	Retired
Robert Rodriguez	Member	January 2018	November 2019	Retired
Gwen Stafford	Member	January 2018	November 2018	Executive Healthcare Consultant
Daniel L. Odom	Member	November 2016	November 2018	Western Bank
Jane U. Henry	Member	December 2014	November 2018	J.U. Henry Design
Kevin McMahon	Member	February 2018	November 2018	Caraway McMahon & Co. LLP
Mayor Daniel Pope	Ex-Officio Member	May 2016	May 2020	Business Owner

SELECTED STAFF OF THE CITY

Name	Position	Date of Employment in Current Position	Date of Initial Employment with City of Lubbock	Total Years of Government Service
W. Jarrett Atkinson	City Manager	December 2016	December 2016	23
Blu Kostelich	Chief Financial Officer	July 2017	July 2017	2

SELECTED STAFF OF LUBBOCK POWER AND LIGHT

Name	Position	Date of Employment in Current Position	Date of Initial Employment with City of Lubbock	Total Years of Government Service
David McCalla	Director of Electric Utilities	September 2014	June 2014	29
Richard Casner	General Counsel	December 2014	April 1996	22
Andy Burcham	Assistant Director & CFO	May 2016	November 1998	19
Blair McGinnis	Chief Operating Officer	January 2016	June 2015	7
Chad Sales	Financial Planning and Analysis Manager	September 2014	March 2009	9
Matthew Rose	Government Relations and Public Affairs Manager	October 2015	April 2013	5

CONSULTANTS AND ADVISORS

Auditors .... BKD, LLP
Dallas, Texas

Bond Counsel.. Orrick, Herrington & Sutcliffe LLP
Austin, Texas

Financial Advisor .... RBC Capital Markets, LLC
Dallas, Texas

[The remainder of this page left intentionally blank.]

OFFICIAL STATEMENT
RELATING TO

$93,925,000
CITY OF LUBBOCK, TEXAS
ELECTRIC LIGHT AND POWER SYSTEM
REVENUE BONDS, SERIES 2018

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance by the City of Lubbock, Texas (the "City") of its $93,925,000 Electric Light and Power System Revenue Bonds, Series 2018 (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 June 28, 2018 (the "Ordinance"), except as otherwise indicated herein (see "SUMMARY OF SELECTED PROVISIONS OF THE 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 Lubbock Power and Light System of the City ("LP&L" or 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 254,565. The City covers approximately 129.0 square miles.

THE BONDS

Description of the Bonds

The Bonds are dated August 1, 2018 and shall bear interest on the unpaid principal amounts from their date of initial delivery (the "Delivery Date"), and mature on April 15 in each of the years and in the amounts shown on page ii hereto. Interest will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on October 15, 2018, and on each April 15 and October 15 thereafter until maturity or prior redemption. 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

The Bonds are being issued 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, if needed, and (iv) paying the costs of issuing the Bonds (see "SOURCES AND USES OF PROCEEDS").

Authority for Issuance

The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapters 1371 and 1502, Texas Government Code, as amended ("Chapter 1371" and "Chapter 1502", respectively), Article VIII of the Charter of the City, and the Ordinance. In the 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").

Security and Source of Payment

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 (the "Previously Issued Bonds") and any additional parity bonds which may be issued in the future ("Additional Bonds"), secured by a first lien on and pledge of the Net Revenues of the System after the payment of maintenance and operating expenses.

Maintenance and operating expenses include contractual payments, including purchased power and energy and fuel purchases, which under Texas law are established as operating expenses of the System. The City has entered into contracts for the purchase of power and energy, and has entered into contracts with various fuel providers for the delivery of gas to the City. The City's payment obligations under such contracts constitute operating expenses of the System. See "THE SYSTEM".

As of August 1, 2018, the City will have outstanding $73,165,000 of Previously Issued Bonds secured by and payable from Net Revenues. The Bonds will be on parity with the Previously Issued 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.

As additional security, there is required to be maintained within the Bond Fund a debt service reserve amount not less than the Average Annual Debt Service requirements of all outstanding Previously Issued Bonds, the Bonds and any Additional Bonds issued on a parity with the Bonds (collectively, the "Bonds Similarly Secured"). Upon issuance of Additional Bonds, the Required Reserve shall be increased, if required, to an amount equal to the lesser of (i) the Average Annual Debt Service (calculated on a Fiscal Year basis) for all bonds Outstanding, as determined on the date of issuance of each series of Additional Bonds, and annually following each principal payment date or redemption date for the Bonds, the Previously Issued Bonds and any Additional Bonds Outstanding, 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 (see "SOURCES AND USES OF PROCEEDS", "SUMMARY OF SELECTED PROVISIONS OF THE ORDINANCE" and Table 9 in "APPENDIX A – FINANCIAL INFORMATION REGARDING THE SYSTEM"). As of May 31, 2018, the Reserve Portion of the Bond Fund is $8,819,942.

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 Bonds Similarly Secured are irrevocably pledged for the payment of the Bonds Similarly Secured and interest thereon. The Bonds Similarly Secured are equally and ratably secured by a first lien upon the Net Revenues of the System (see "SUMMARY OF SELECTED PROVISIONS OF THE ORDINANCE").

Rates

The City has covenanted in the Ordinance that it will at all times charge and collect rates for services rendered by the System sufficient to pay all operating, maintenance, repair and improvement expenses, any other costs deductible in determining Net Revenues and to pay interest on and the principal of the Bonds Similarly Secured, and to establish and maintain the funds provided for in the Ordinance. The City has further covenanted that, if the System should become legally liable for any other indebtedness, it will fix and maintain rates and collect charges for the services of the System sufficient to discharge such indebtedness.

Redemption Provisions

Optional Redemption. The City reserves the right, at its option, to redeem the Bonds having stated maturities on and after April 15, 2029, in whole or in part in principal amounts of $5,000 or any integral multiple thereof within a stated maturity, on April 15, 2028, 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.

Mandatory Redemption. The Bonds scheduled to mature on April 15 in each of the years 2043 and 2048 (the "Term Bonds") are subject to scheduled mandatory sinking fund redemption at a price equal to the principal amount thereof, plus accrued interest to the redemption date, out of moneys available for such purpose under the terms of the Ordinance, on the dates and in the respective principal amounts as described as follows:

Term Bond Maturing April 15, 2043

Redemption Date (4/15)	Principal Amount
2041	$2,280,000
2042	2,390,000
2043*	2,510,000

Term Bond Maturing April 15, 2048

Redemption Date (4/15)	Principal Amount
2044	$2,635,000
2045	2,770,000
2046	2,910,000
2047	3,055,000
2048*	3,205,000

*Stated maturity.

The Paying Agent/Registrar will select by lot or by any other customary method that results in a random selection the specific Term Bonds (or with respect to Term Bonds having a denomination in excess of $5,000, each $5,000 portion thereof) to be redeemed by mandatory redemption. The principal amount of Term Bonds required to be redeemed on any redemption date pursuant to the foregoing mandatory sinking fund redemption provisions hereof shall be reduced, at the option of the City, by the principal amount of any Term Bonds which, at least 45 days prior to the mandatory sinking fund redemption date (i) shall have been acquired by the City at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, or (ii) shall have been redeemed pursuant to the optional redemption provisions hereof and not previously credited to a mandatory sinking fund redemption.

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

Defeasance

The Ordinance provides for the defeasance, discharge or refunding of the Bonds in any manner permitted by applicable law. Under current State law, such discharge may be accomplished by either (i) depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to principal, premium, if any, and all interest to accrue on the Bonds to maturity or redemption and/or (ii) 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 City must secure a certificate or opinion from an independent certified public accountant 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 eighteen (18) consecutive months prior to the month of adoption of the ordinance authorizing the Additional Bonds, equal to at least 1.25 times the Average Annual Debt Service requirements of the Bonds Similarly Secured which will be outstanding upon the issuance of the Additional Bonds, and further demonstrating that for the same period as is employed in arriving at the aforementioned test said Net Revenues were equal to at least 1.10 times the maximum annual principal and interest requirements of all Bonds Similarly Secured as will be outstanding upon the issuance of the Additional Bonds. In making a determination of the Net Revenues, the certified public accountant 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 Net 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 his certification or opinion based on such change in charges being in effect for the entire period covered by the certificate or opinion of the certified public accountant. The Bonds are being issued as Additional Bonds, under the terms of the ordinances authorizing the issuance of the Previously Issued Bonds. See "SUMMARY OF SELECTED PROVISIONS OF THE ORDINANCE – Particular Representations and Covenants – Additional Bonds" for complete terms and conditions to be satisfied for the issuance of Additional Bonds.

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.

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.

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.

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 the 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, 2017, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) that sovereign immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. In its decision, the Court held that since the Local Government Immunity Waiver Act waives governmental immunity in certain breach of contract claims without addressing whether the waiver applies to a governmental function or a proprietary function of a city, the Court could not reasonably read the Local Government Immunity Waiver Act to evidence legislative intent to waive immunity when a city performs a proprietary function.

As noted above, the Ordinance provides that holders of 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 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.

[Remainder of page left blank intentionally.]

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	$	93,925,000.00
Net Original Issue Premium		12,858,193.75
Total Sources of Proceeds	$	106,783,193.75
Uses of Proceeds:		
Deposit to Project Fund	$	98,097,370.06
Capitalized Interest		7,742,510.69
Underwriting Discount		511,946.76
Cost of Issuance		431,366.24
Total Uses of Proceeds	$	106,783,193.75

THE SYSTEM

General Information, Electric Utilities Board

The City's municipally owned electric utility system, known as 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.

On November 2, 2004, the citizens of the City approved an amendment to the City Charter establishing a nine member board of directors (the "Electric Utility Board") to govern, manage and operate LP&L, and which gave the City Council the authority to appoint the directors to the Electric Utility Board. Under the amendment, the City Council retained the authority to approve LP&L's budget, set LP&L's rates, exercise the power of eminent domain on behalf of LP&L, and issue debt on behalf of LP&L ("City Council Charter Responsibilities"). In response to the charter amendment approved by the voters, on December 16, 2004 and later amended on April 10, 2012, the City Council adopted ordinances (the "LP&L Governance Ordinance"), which provided for, among other things, the following: (1) reserving City Council Charter Responsibilities in addition to requiring from LP&L the payment of an annual franchise fee equivalent and payment in lieu of taxes to the City; and (2) mandating the creation of certain reserve accounts by LP&L and restricting the transfer of revenues from LP&L until such reserves have been funded. In addition, the City initiated a solicitation to the holders of LP&L's senior revenue debt and from bond insurers who issued policies in support of the senior lien debt seeking approval to amend each LP&L bond ordinance to provide for the governance of LP&L by the Electric Utility Board and, upon obtaining the necessary consents, amended the bond ordinances to provide for the governance of LP&L by the Electric Utility Board in January 2005.

The LP&L Governance Ordinance provides that the City Council consider extensive business and/or financial experience as the primary qualification for serving on the Electric Utility Board. Electric Utility Board members serve without compensation. Members of the Electric Utility Board may serve a maximum of three two-year terms. In addition, the Mayor serves as an ex-officio member of the Electric Utility Board (see "CITY OFFICIALS, STAFF AND CONSULTANTS – Lubbock Power and Light Board of Directors").

Under the LP&L Governance Ordinance, the Electric Utility Board is given the authority, duties, and responsibility to: (1) approve recommendations to the City Council regarding LP&L's annual budget and electric rate schedule and, from time to time, submit recommendations to the City Council regarding amendments to the budget and/or the electric rate schedule; (2) oversee the audit of the electric fund, and engage an accounting firm for that purpose; and (3) subject to applicable law, including the City Charter and Code of Ordinances, govern, manage, administer and operate the System, including contracting for legal and other services separate and apart from those provided by the City. The Electric Utility Board hires the Director of Electric Utilities of LP&L and LP&L's general counsel. Under the terms of the LP&L Governance Ordinance, the Director of Electric Utilities of LP&L reports to the Electric Utility Board. While the City Council retains substantial powers over the System, an additional goal of the City in establishing the Electric Utility Board is to develop local expertise in a pool of individuals who can provide a sharper focus by the City on the operation of LP&L.

Service Territory

Currently, LP&L is the primary supplier of retail electric service within the municipal limits of the City. LP&L's service area is certified by the Public Utility Commission of Texas ("PUC" or "Commission"). The LP&L certificated service area consists of most of the area within the City's current boundaries and a few small areas just outside of the City's current boundaries. Two small portions in the northwest portion of LP&L's certificated service area are dually certificated with both LP&L and South Plains Electric Cooperative ("SPEC"), and an approximate one square mile area in north Lubbock is dually certificated with both LP&L and Southwestern Public Service Company ("SPS"), a subsidiary of a large investor-owned energy company, Xcel Energy Inc ("Xcel"). A portion of southwest Lubbock is served solely by SPEC.

For the past five years, the City has been characterized by growing population (population has increased by 9.0% over the past 5 years), increased taxable assessed valuation (increased by 28% over the past 5 years) and low unemployment (in 2017, Lubbock's reported unemployment was 3.2% compared to the State's unemployment of 4.3%). Economic growth and employment opportunities benefit from the institutional presence of Texas Tech University and a number of other higher education institutions.

Since January 2016, the Lubbock Economic Development Alliance has recruited new company locations/expansions into the LP&L service territory and has worked to increase the diversity of Lubbock's business sectors and workforce. The businesses located in Lubbock are made up of a variety of industries including biomedical, food processing, agriculture and more. Some of the new and expanding companies include: Monsanto, Severn Peanut Company, and Hoverstate. In aggregate, these companies are expected to add 670 new jobs to the Lubbock community. In addition to the new and expanding companies in Lubbock, Covenant Health System is in the midst of a significant capital improvement project valued at an estimated $450 million (source: ww.covenanthealth.org/about-us/newsroom/news-and-announcements/2015/covenant-health-unveils-450-million-building-ren/) and Texas Tech University/Texas Tech University Health Sciences Center has plans over the next 10 years for potential projects worth an estimated $400 million. (source: www.texastech.edu/fpc/vision.php).

See "APPENDIX B - EXCERPTS FROM CITY'S ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED SEPTEMBER 30, 2017" for additional information on the service territory.

LP&L's annual peak load has averaged 603 megawatts ("MW") over the last three years, with LP&L's record peak load of 620 MW occurring in July 2016. LP&L reviews its load forecast, at a minimum, on an annual basis. LP&L's customer base is diversified and heavily residential. In fiscal year 2017, residential meters composed 86% of total LP&L meters, and 38.6% of retail sales. Commercial meters made up 13% of total LP&L meters, and 55% of retail sales. Municipal and school sales make-up the remainder. The ten largest customers made up 21% of retail sales, and 16% of revenue (see "APPENDIX A – FINANCIAL INFORMATION REGARDING THE SYSTEM, Table 3 – STATISTICAL DATA" for additional information).

Strategic Plan

As stated in the System's 2017-18 Adopted Budget and Capital Program document, LP&L's stated goals are to:

- Provide safe and reliable electric service at the most affordable rates
- Ensure long-term financial sustainability
- Deliver first-class service to its customers while operating with the highest code of ethics
- Provide a safe work environment for all employees
- Enhance service delivery, service options and community goodwill
- Maintain strong credit ratings

To that end, in 2014 LP&L completed a thorough review of its operations and finances, focusing on the future after its total requirements purchased power contract with SPS, which is contracted through the West Texas Municipal Power Agency ("WTMPA"), of which the City is a member, ends on May 31, 2019 (see "Future Power Supply" herein for additional information.

After a methodical and purposeful examination of all options, LP&L announced on September 24, 2015, the intent to join the Electric Reliability Council of Texas ("ERCOT"). In March 2018, the PUC approved the integration of 470 MW of LP&L's load (the "Affected Load"), which accounts for approximately 70% of LP&L's total load, into the ERCOT system with an anticipated integration by June 2021. From its examination, LP&L believes such a decision would reduce customer bills by up to 8% versus remaining in the Southwest Power Pool ("SPP"). Furthermore, such a decision would allow LP&L to avoid building any significant generation resources, avoiding estimated debt costs ranging from $350 to $700 million, while availing LP&L customers of access to Texas power plants and over 1,800 active market participants that generate, sell, or transmit wholesale electricity.

At the same time, the Lubbock City Council announced its intent to study the feasibility of opting in to retail customer choice for the Affected Load (see "Future Power Supply – Opt-in to Retail Competition").

LP&L plans to continue managing its system and finances to minimize cost to its customers while maintaining its financial strength. Whether LP&L opts in to retail customer choice or continues to secure its power supply from the ERCOT market, it intends to manage its rates such that purchased power costs are passed through to customers and has minimal impact on LP&L's net income.

As part of, and in addition to, its integration into the ERCOT system, LP&L anticipates two sizeable capital improvement projects that will improve its reliability and help it manage costs:

- Transmission Project: LP&L intends to complete significant investment in new power line and substation construction related to a 69kV inner transmission loop, a 115kV outer transmission loop, and a 345kV interconnection to ERCOT.
- Customer Billing and Advanced Metering: LP&L intends to modernize its customer billing system and install advance metering infrastructure ("AMI") throughout its service territory.

LP&L believes these investments in the system will assist in continuing to meet its operational and financial goals. For discussion on financial implications of these investments (see "Financial Model, Base Rate Adjustments and Purchased Power Recovery Factor").

Future Power Supply

On October 20, 2015, LP&L's Electric Utility Board and the City Council both took formal action to authorize LP&L to seek interconnection of the Affected Load with the ERCOT. LP&L is not seeking to connect the remaining approximately 170 MW of electric load to ERCOT. Since that time, LP&L has endeavored to gain regulatory approval to move the Affected Load from SPP to ERCOT. The reasoning for this move, and steps that LP&L and regulatory authorities have taken to facilitate this move, are described in the following sections:

<u>The Electric Reliability Council of Texas</u>…Founded in 1970, ERCOT became the primary overseer of Texas' power grid and the independent system operator for a region that serves 90 percent of the state's electric load, or approximately 24 million customers. Since not all of Texas is deregulated, including the City of Lubbock, ERCOT manages the areas both where residents have the power to choose a retail electric provider ("REP"), and other areas what are not open to retail electric choice, including municipalities and cooperatives that retain the local option to deregulate. ERCOT schedules power on an electric grid that connects more than 46,500 miles of transmission lines and more than 610 generating units. Governed by a board of directors and subject to oversight by the PUC and the Texas Legislature, ERCOT is a membership-based 501(c)(4) nonprofit corporation that manages and ensures the reliability of electric service to its customers. Members of the ERCOT Board of Directors include consumers, cooperatives, generators, power marketers, REPs, investor owned utilities ("IOUs"), including transmission and distribution providers, and municipally-owned electric utilities. In 2017, loads within the ERCOT region used 357 billion kilowatt-hours worth of energy, which is a 1.6 percent increase from 2016.

<u>Expiration of SPS Power Agreement and Future Power Supply</u> . . . The SPS Power Agreement is a total requirements contract executed in 2004 between WTMPA and SPS (see "THE SYSTEM – Current Status of Purchased Power Agreements, Generating Assets, and Renewable Energy Resources" for additional information). Due to the termination of the SPS Power Agreement, in 2014 LP&L completed a thorough review of its operations and finances, focusing on the future. Based on its studies, LP&L anticipates that the City will require approximately 640 MW of total generation by June 2021 to supply its projected customers.

LP&L explored all options for a future power supply beyond the expiration of the SPS Power Agreement in June 2019, including the possibility of new power purchase agreements, tolling agreements, new generation, partnerships with other utilities, or a combination of each. LP&L's consultant, Black & Veatch Corporation (the "Consultant"), completed evaluations to enable central decisions as to whether the power supply should be from a power purchase/tolling agreement or self-built generation. The scope of work with the Consultant included a site selection study, electrical interconnect assessment, water/wastewater assessment, natural gas supply assessment, analysis on participation in the SPP Integrated Marketplace ("IM"), self-build cost and performance estimates, operations and maintenance assessments, licensing and permitting assessment, technology selection, assistance regarding a request for proposal (the "RFP") for power supply, and negotiation support with a potential proposer.

In July 2014, LP&L issued a RFP for capacity and energy supply services for the purchase of some or all of the capacity needed in 2019. Responses to the RFP were due on October 7, 2014. After a methodical and purposeful examination of all proposals and options, LP&L decided to take down the RFP on August 11, 2015 and announced on September 24, 2015 the intent to join ERCOT.

A 400 MW Capacity and Energy Scheduling Contract with SPS was approved by the Electric Utility Board, City Council, and SPS in March 2017, providing LP&L with 400 megawatts of capacity and energy scheduling beginning in June 2019 and extending through May 2021 (the "SPS Capacity Agreement"). A separate agreement with Northern States Power ("NSP") provides a price ceiling for energy purchases by implementing a 16 heat rate call option should SPP IM prices exceed a 16 heat rate price. The price of energy can be calculated by multiplying the million British Thermal Units price of natural gas by the heat rate of any given unit. Thus, the 16 heat rate call option provides a dynamic ceiling that will fluctuate with the price of natural gas. In the event that prices do exceed the call option, NSP will reimburse LP&L for the full amount of energy purchased from the SPP IM above the call option price. The City believes that the signing of these contracts secures affordable and reliable power for the transition period between the expiration of the SPS Power Agreement and the interconnection with ERCOT.

<u>ERCOT Integration Request Process</u>… The formal process related to LP&L's integration of the Affected Load into ERCOT began with the submittal of its ERCOT Integration Study to ERCOT's Regional Planning Group ("RPG") in December 2015. In its Integration Study, LP&L considered and proposed certain transmission facilities that would result in the integration of the relevant portion of LP&L's own system with that of ERCOT. Interested parties had the opportunity to file comments on that transmission plan at RPG within the ERCOT process, and did so in January 2016. In February 2016, the Commission initiated PUC Docket No. 45633 *Project to Identify Issues Pertaining to Lubbock Power & Light's Proposal to Become Part of the Electric Reliability Council of Texas* (the "Project"), and in March, requested that comments and reply comments from parties on particular questions be filed in April 2016. A workshop was held regarding the Project on May 3, 2016 to consider those comments.

In June 2016, ERCOT filed its own Study of the Integration of the LP&L system into the ERCOT System regarding the Project. That study determined that a configuration of transmission projects with three connection points between the ERCOT grid and the LP&L system—designated as Option 4ow—would present the lowest societal costs once capital costs and production cost effects were considered. 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. Later that month, LP&L filed a statement indicating that it would be performing a study to gauge the effect of its integration into ERCOT on customers in ERCOT and SPP, as well as its own system. On June 30, 2017, July 7, 2017, and September 1, 2017, ERCOT, SPP, and LP&L, respectively, filed their studies with the PUC.

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* (the "Application"). Through the Application LP&L was seeking Commission authority to disconnect the 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 (the "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. Assuming the timely completion of construction of such transmission assets, the integration of the Affected Load is expected to take place on June 1, 2021.

<u>ERCOT Transmission Assets and Approval Process</u>… New transmission lines and substations 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. The LP&L cost to fund the needed additional infrastructure is intended to be paid from the issuance of bonds, including the Bonds, and from the new transmission cost of service ("TCOS") revenue stream (see "THE SYSTEM – Transmission Cost of Service Revenues" section below for additional information). Capital projects currently included in LP&L's existing long-term capital improvement plan are related to reliability and will cover a portion of system improvements necessary prior to a final transition (see "THE SYSTEM – Capital Projects" for additional information). The PUC Order states that "…LP&L may submit an application to the Commission to establish wholesale transmission rates no less than eight months in advance of the anticipated integration date so that LP&L may charge transmission rates beginning at the integration date if the Commission has approved a transmission rate at that time, provided that all assets included in the rate calculation are energized, used, and useful prior to the effective date of the transmission rate." The authorization of transmission rates minimizes risk to LP&L rate payers by ensuring a revenue stream at the time of the ERCOT integration.

One of the findings within the PUC Order stated that Sharyland Utilities, L.P. ("Sharyland") and LP&L are the only utilities that own the endpoints included in Option 4ow, and therefore it is appropriate that LP&L and Sharyland provide the Option 4ow transmission facilities. It is appropriate for Sharyland and LP&L to determine between themselves the portions of the Option 4ow facilities that each will build and to notify ERCOT and the Commission of the agreement. If agreement is not reached by January 1, 2019, Sharyland and LP&L shall file a petition at the Commission by February 1, 2019 to resolve the issue. Currently, LP&L is negotiating a Participation Agreement with Sharyland that sets forth the rights, responsibilities, and expectations of Sharyland and LP&L in connection with the LP&L integration to ERCOT and memorializes the terms and conditions regarding, (i) the ownership allocation between LP&L and Sharyland, (ii) the CCN applications, (iii) the engineering, design, and construction of the facilities, (iv) LP&L's payment obligations to Sharyland for their services for the construction of the LP&L's transmission assets, and the LP&L integration to ERCOT, (v) the coordination necessary to ensure successful completion of the LP&L integration, and (vi) the subsequent transfer of LP&L's transmission assets and, to the extent applicable, the LP&L CCN rights from Sharyland to LP&L.

<u>Portion of LP&L's Load Remains in SPP</u>…Approximately 170 MW of LP&L load (the "Unaffected Load") is expected to remain in SPP after the Affected Load transfer has been effectuated. This Unaffected Load is expected to be served by the partial requirements agreement with SPS, and the WTMPA Elk City wind agreement (each as described in "Current Status of Purchased Power Agreements, Generating Assets, and Renewable Energy Resources" below). LP&L intends to honor the terms of the SPS Partial Requirements Contract by receiving power and energy from SPS on the distribution system connected to SPS' transmission system. This Unaffected Load is expected to remain in SPP during the term of the agreement and is not included in the load that will be interconnected to ERCOT.

The acquisition of SPS' distribution system in 2010 included 19 delivery points that are served off of SPS' transmission system (see "Historic Asset Purchase from SPS, Elimination of Majority Competition" below). LP&L acquired only distribution assets and SPS retained ownership of its transmission system. The acquired system will remain in SPP and will be electrically isolated from LP&L's transmission and distribution system that will move to ERCOT (see "THE SYSTEM – Asset Purchase from SPS, Elimination of Majority Competition" for additional information).

<u>Transmission Cost of Service Revenues</u>…LP&L intends to file a TCOS rate filing with the PUC in 2020 in order to earn a rate of return on its transmission assets. These revenues (to be collected from all load serving entities in ERCOT) are anticipated to approximate at least 1.5x the annual debt service on obligations issued to finance transmission assets that are constructed in or transferred into ERCOT. This is a new revenue stream that will commence upon LP&L's entry to ERCOT. The TCOS revenues are anticipated to begin in FY 2020-21 and increase to approximately $44.8 million annually by FY 2023-24.

<u>Hold Harmless Payments</u>…The PUC Order requires that upon integration to ERCOT on June 1, 2021, LP&L will make a one-time payment of $24 million to SPS to indemnify SPS and its customers for LP&L's integration into ERCOT ("SPS Hold Harmless Payment"). LP&L will utilize the energy and capacity savings afforded by the 24-month SPS Capacity Agreement with SPS and reserve up to $24 million of the savings from June 1, 2019 through June 1, 2021 in order to make the one-time payment in 2021.

In addition to the SPS Hold Harmless Payment, the PUC ordered LP&L to pay $22 million each year for the first five years upon integration into the ERCOT market ("ERCOT Hold Harmless Payment"). The funds will be credited to ERCOT wholesale transmission customers to mitigate integration costs. This amount will be netted against the TCOS revenues received from ERCOT. The first four months of payments begin in the last quarter of FY 2020-21 and will continue until FY 2025-26.

Opt-In to Retail Competition...In January 2018, the Lubbock City Council announced its intent to study the feasibility of opting in to retail customer choice for the portion of the LP&L load to be integrated into the ERCOT system. Pending the results of the opt-in study (the "Opt-In Study"), LP&L anticipates opting in to the ERCOT competitive retail market by June 1, 2021 and does not plan on operating as a REP. A Request for Qualifications was issued in April 2018 with the intent to award a contract to a consultant for the Study by summer 2018. It is expected that the Opt-In Study will take one year to complete.

Transmission Owner in the Southwest Power Pool

The City is currently located within the boundaries of SPP, a non-profit independent system operator founded in 1941 with a membership that currently includes 211 participants serving more than 18 million customers across all or parts of fourteen states, including portions of Arkansas, Iowa, Kansas, Louisiana, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas and Wyoming. SPP includes a service territory of approximately 66,497 miles of transmission lines and 735 generating units. Its membership is comprised of IOUs, municipal systems, generation and transmission cooperatives, state agencies, federal agencies, power marketers, independent power producers, and independent transmission companies. SPP is subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC") and serves as one of nine independent system operators/regional transmission organizations within the North American Electric Reliability Council. Since 1997, SPP has provided independent security coordination and tariff administration, pursuant to a tariff approved by FERC, across its service area. LP&L is not a member of SPP. In 2017, consumption within the SPP region totaled 266.4 billion kilowatt-hours worth of energy.

Membership in West Texas Municipal Power Agency

LP&L is currently a member of the WTMPA, a municipal power agency formed under Article 1435a, Vernon's Annotated Texas Civil Statutes, as amended (now codified as Chapter 163, Texas Utilities Code) by concurrent ordinances adopted in 1983 by the governing bodies of the City, the City of Brownfield, the City of Tulia, and the City of Floydada (the "Member Cities"). Each Member City owns and operates a municipal electric light and power system, and all are within a 75-mile radius of the City. WTMPA is a separate municipal corporation, a political subdivision of Texas and body politic and corporate. The City's percentage of rights and liabilities in WTMPA is 95.07%. WTMPA does provide electricity to LP&L in accordance with the power agreement described under "THE SYSTEM – Current Status of Purchased Power Agreements, Generating Assets and Renewable Energy Resources" below. There are currently no plans for LP&L to distribute power to any of the other Member Cities upon integration into ERCOT.

Historic Asset Purchase from SPS, Elimination of Majority Competition

On November 12, 2009, the City Council, the Electric Utility Board and SPS reached an agreement whereby SPS agreed to sell its distribution system within the City (and a few immediately adjacent areas) to the City for $87,754,858 and to withdraw its PUC certification to serve the dually certificated territory within most of the municipal limits of the City. The parties closed on this agreement on October 29, 2010. The elimination of SPS as a competitor in the majority of the City resulted in changing approximately 80% of the City from being dual-certified to being single-certified by LP&L.

In conjunction with the purchase of the SPS distribution system by LP&L, LP&L and SPS entered into an agreement under which LP&L agrees to purchase from SPS, beginning in 2019 and running through 2044, 170 MW of wholesale power at an average fuel cost determined on the basis of a FERC approved formula base rate (the "SPS Partial Requirements Agreement"). The projected amount of power to be purchased by LP&L roughly corresponded to the load LP&L took over from SPS as a result of the purchase by LP&L of the SPS distribution system in the City.

Current Status of Purchased Power Agreements, Generating Assets, and Renewable Energy Resources

Total Requirements Power Purchase Agreement with SPS . . . In June 2004, WTMPA, contracted to obtain all energy requirements of its member cities from SPS or its permitted assigns through May 31, 2019 (the "SPS Power Agreement"). LP&L schedules energy purchased under the SPS Power Agreement for each of the other Member Cities. The SPS Power Agreement includes a fixed demand charge and energy components, with a pass-through of SPS's fuel cost, which is billed in accordance with SPS's fuel cost adjustment schedule, as approved by FERC, and both Xcel and SPS transmission charges. While the total requirements agreement was originally at market-based rates, FERC ultimately ruled that SPS had market power (dominated the market) and therefore was not eligible to sell wholesale power at market-based rates within their territory. That led to a conversion of the contract to a cost-of-service based formula rate. SPS can terminate the SPS Power Agreement upon the occurrence of an adverse regulatory action under which SPS is required to sell generation assets, and WTMPA can terminate the SPS Power Agreement upon notice and during the final four years of the scheduled termination date if WTMPA acquires an interest in replacement, coal-fired generation. Each party may require adequate assurances of performance whenever there is a reasonable basis. The fuel mix afforded by the SPS Power Agreement constituted a significant factor in LP&L's determination to approve the SPS Power Agreement. By entering into the SPS Power Agreement, WTMPA (and thus LP&L) resolved its long-term power supply issues through May of 2019 and minimized its exposure to fuel price volatility.

Xcel is a regulated utility in accordance with the Texas Public Utility Regulatory Act ("PURA"); consequently, the cost structure and other aspects of the operations of its affiliate, SPS, are subject to regulatory oversight by the PUC, as well as FERC under applicable federal law. Conversely, the setting of LP&L's rates, is a City Council Charter Responsibility and is regulated and approved by the City Council.

<u>SPP Purchased Power Cost Recovery</u> . . . Since entering into the SPS Power Agreement, the City and LP&L have generally passed through purchased power costs incurred under the SPS Power Agreement to LP&L's customers. In November 2012, the City Council approved a contract with NewGen Strategies and Solutions, LLC ("NewGen") to develop a long-term financial forecast, cost-of-service ("COS"), and proposed rate design study for LP&L (the "Study"). To ensure and evaluate LP&L's financial stability, the Study included a long-term financial plan for the electric system, determined the total cost of providing electric services, equitably distributed the costs to customers, and designed rates to safeguard the financial integrity of LP&L. All aspects of the Study, including the long-term financial forecast model, COS model, and rate design model, have been implemented at LP&L and have been used extensively since the models were completed in 2013. In November 2016, LP&L retained NewGen to review the long-term financial forecast, and update the COS and rate design models. NewGen concluded that LP&L continues to effectively utilize the financial forecast to evaluate and optimize the use of debt, capital prioritization, and rate changes to adequately recover costs and prepare for eventual integration into ERCOT. The updated COS model ("2016 COS") reinforced the original 2013 COS results and subsequent rate changes. The majority of the customer class rates are within a reasonable range of the 2016 COS results.

<u>SPS Capacity Agreement and Partial Requirements Purchase Power Agreement with SPS</u>…As described above, LP&L has entered into the SPS Capacity Agreement providing LP&L with 400 megawatts of capacity and energy scheduling from June 2019 through May 2021, and the SPS Partial Requirements Agreement providing LP&L with 170 MW of wholesale power from 2019 through 2044.

<u>SPP Purchased Power Contractual Risk</u> . . . By tying its energy requirements solely to SPS through May 31, 2019 and partially to SPS through 2044, the City depends on SPS as a counterparty to vital agreements relating to the operation and financial condition of LP&L. Counterparty risk is risk associated with the counterparty's financial condition, credit ratings, changes in business strategies and other quantitative and qualitative measures that could affect the ability of the counterparty to perform its obligations to the City. Both the long-term Unit Contingency Agreement described below under "Current Status of LP&L Generating Assets" and the SPS Power Agreement provide the City the right to demand certain credit assurances from its counterparty if it has reasonable grounds for insecurity regarding the performance by its counterparty of any contract obligation.

<u>Current Status of LP&L's Generating Assets</u> . . . LP&L currently has approximately 111 MW of dependable natural gas fired generation, with approximately 111 MW anticipated to be available in 2019 for load requirements (see Table 1 in "APPENDIX A – FINANCIAL INFORMATION REGARDING THE SYSTEM" for additional information). Until the SPS Power Agreement terminates, LP&L cannot use the generating assets to serve its load. As a result, LP&L entered into a unit contingent agreement with SPS whereby LP&L would continue to operate and maintain its Cooke Unit and allow SPS to dispatch power from that facility, and permit LP&L to sell its output to SPS upon request (the "Unit Contingent Agreement"). The Unit Contingent Agreement will expire on June 30, 2019.

A minimum annual payment to LP&L under the Unit Contingent Agreement was originally intended to compensate LP&L for its costs to maintain this facility in a standby condition in order to mitigate LP&L's cost risk of staffing and maintaining the plant for an unknown quantity of annual use. If SPS requests LP&L to dispatch power from this facility, SPS is required to provide the necessary natural gas for such operations.

LP&L and SPS amended the Unit Contingent Agreement in 2016 to provide that the steam units at the Cooke unit be taken out of the Unit Contingent Agreement and that the two gas turbines at the Cooke Unit continue to provide capacity to SPS through June 2019. The Unit Contingent Agreement provided a net savings to the System of approximately $850,000 on an annual basis. Since amending the Unit Contingent Agreement, LP&L's generation sales to SPS have totaled 14,331 megawatt hours ("MWh").

LP&L entered into an agreement in February 2015 with a power marketing company ("PMC") to register its Brandon and Massengale units in the PMC's portfolio. The agreement allowed the PMC to manage and procure the natural gas needed to operate the Brandon and Massengale units. The agreement also allowed the PMC to bid the units into the SPP IM on LP&L's behalf since LP&L is not a registered member of SPP.

In Fiscal Year ended September 30, 2017, the total revenue produced by the LP&L generating units was $4.6 million, compared to $3.6 million in Fiscal Year ended September 30, 2016. LP&L's current financial model for revenues and expenses take the new contract with the PMC into account and these revenues and expenses will be incorporated into the purchased power recovery factor ("PPRF") upon integration to ERCOT. For the future plans of the generating units (see "THE SYSTEM – Financial Model, Base Rate Adjustments and Purchased Power Recovery Factor").

<u>Renewable Energy Resources</u> . . . WTMPA has an amended power purchase agreement with Elk City II Wind, LLC for the purchase of energy from the 100.8 MW aggregate nameplate wind generation facility located in Roger Mills and Beckham Counties, Oklahoma. The initial term of this agreement is June 1, 2019 through May 31, 2032, unless extended. The term may be renewed or extended by mutual consent of WTMPA and Elk City II Wind, LLC, upon terms and conditions and for a price upon which must mutually be agreed upon in connection with such extension or renewal. In April 2018, WTMPA agreed to an Amendment of the Power Purchase Agreement with Elk City Wind II, LLC that provides for the following: 1) resolves a disagreement with respect to payment of SPP Attachment Z2 Directly Assigned Upgrade Charges; 2) allows the owner to repower the wind generation facility to a capacity rating

of no more than 107 MW; 3) modifies the contract price for energy; 4) updates contract language to conform to current statutory language; and 5) amends other contract language to provide WTMPA with certain benefits in terms of energy settlement. WTMPA expects that the member cities will be in an improved financial position by virtue of the amendment.

Current Status of Interconnection, Transmission and Distribution

LP&L currently has four (4) transmission interconnections with the SPS grid constructed between 1981 and 2004 with a combined import capacity of 700 MVA. LP&L owns a 69,000 Volt ("69 kV") transmission loop system, over 80 miles in length, which provides bulk power to fifteen 69,000V/12,470V substations. Of the above 69 kV transmission lines, 41.64 miles have been insulated for operation at 115 kV in anticipation of rebuilding the 69 kV system to 115 kV. Each of the four interconnections with SPS is tied to LP&L through 230 kV transmission lines. The LP&L distribution system includes over 5,754 miles of distribution lines, with approximately 34% being underground. Upon LP&L's acquisition of SPS's distribution assets within the City, both distribution systems have been utilized to ensure adequate capacity for the total load and for system reliability purposes.

In the process of preparing the LP&L system for a transition to ERCOT, an engineering consultant was engaged to perform an independent evaluation associated with the integration of LP&L to ERCOT. The objective of the investigation performed by the consultant was to identify the most cost effective solution to reliably integrate LP&L into the ERCOT grid while also quantifying the benefits of such integration on both systems. A comprehensive analysis spanning screening studies, steady state assessment, long-term load deliverability evaluation, system strength assessment and a sub-synchronous resonance risk evaluation was performed to assess the relative performance of all credible transmission options to reliably integrate LP&L with the ERCOT grid.

In terms of LP&L internal system upgrades, the construction of an outer 115 kV loop surrounding an inner 69 kV LP&L loop is underway and planned to be completed prior to the ERCOT integration. These upgrades represent the most cost-effective approach to ensure a reliable and robust internal LP&L system to fully leverage the benefits of the ERCOT integration.

Capital Projects

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.

LP&L annually adopts a six-year capital improvement plan for all its operations, and the current plan is summarized in Table 6 of "APPENDIX A – FINANCIAL INFORMATION REGARDING THE SYSTEM". The current six-year capital improvements plan reflects those expenditures being in the range of $25.1 million to $149.2 million per year. LP&L anticipates that the level of cash funding for all capital projects for a 10-year period between FY 2013-14 and FY 2023-24 is approximately 27 percent. The amount of cash funding averages roughly $17.1 million per year for the next five years, which is greater than the previous five-year average of $12.3 million per year.

Transmission Projects… The six-year capital improvement program ("Program") includes a significant investment for new power line and substation construction related to a 69 kV inner transmission loop, a 115 kV outer transmission loop, and a 345kV interconnection to ERCOT. The investment is crucial for LP&L to improve the reliability and capacity of its transmission grid in order to serve Lubbock's load growth needs and to responsibly manage the transition to ERCOT. The program includes $272.6 million in proposed investment in Transmission and Distribution ("T&D") projects and $205.6 million in proposed investment in the 141-mile ERCOT Integration Program ("Integration Program"). The Integration Program will include investments in 345kV lines, 345kV switchyards, 345/115 kV autotransformers at each substation, 115 kV lines, 115 kV substations, and expanded 115 kV switchyards.

Customer Information Systems ("CIS"), Meter Data Management ("MDM") System, Mobile Workforce Management ("MWFM") System, and Advanced Metering Infrastructure (AMI)…The Program includes a $38.9 million investment in modern customer billing and advanced metering infrastructure systems that will allow the utility to better serve its customers. The Program also includes a $1.3 million investment in a new MWFM System that will assist the utility with field resource forecasting, scheduling, dispatching, and communication.

- CIS/MDMS: The CIS and MDM solution (collectively, the "CIS Solution") is important to enable LP&L to provide more accurate bills, timely field service and one call resolution to customer inquiries. It is also a critical activity to meet the requirements for the future integration to ERCOT and for advanced metering infrastructure needs. The CIS solution will also provide flexibility to the utilities to deliver complex billing structures while also enabling more efficient operations.
- MWFM: The MWFM will be used to assist in job scheduling by predicting how long a field event should take and will identify the impacts of unexpected events; it will provide real-time updates that communicate with the CIS Solution; it will provide route monitoring and identify variances between predicted routes and actual routes; and it will provide better communication between the utilities and customers, but also between internal departments.
- AMI: AMI will play an important part in making the LP&L distribution system more efficient by identifying outages and will play a critical role in the future integration to ERCOT. The AMI solution is expected to improve billing accuracy by eliminating manual meter reading and by reducing billing errors; improve customer service by increasing efficiency in addressing customer inquiries and expands customer service options; empower customers by providing accurate, near real-time data so customers can track and better manage their electric usage; improve outage management by automatically identifying outages before a customer reports them; and enhance reliability by providing information for conducting load analysis and load forecasting to meet the growing demands of the system.

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, LP&L management is of the view that the capital improvement plan will be funded from a blend of operating revenues and bond proceeds. The System plans to fund approximately $98.1 million of System capital improvements with proceeds of the Bonds (see "THE BONDS – Purpose" and "SOURCES AND USES OF PROCEEDS").

Financial Model, Base Rate Adjustments and Purchased Power Recovery Factor

LP&L utilizes a financial model to project all revenues, operating expenses, and capital expenditures for a six-year time frame. The model forecasts every line-item for 29 cost centers and applies growth rates that are specific to each line-item in order to project a realistic financial portrait. The model delves into the details, but also incorporates strategic plans that impact the future of LP&L. The current financial model incorporates revenues and expenses/expenditures related to the integration of the Affected Load into ERCOT, and opt-in to retail competition for that portion of the system. The model considers purchased power costs, departmental expenses, fund-level expenses, funding sources (including TCOS revenues) and future staffing levels related to the anticipated changes within the utility. The model is used to incorporate the strategic plans of the utility and ultimately produces the Operating Budget and Capital Program for the upcoming fiscal year and projections for the 6-year planning horizon that is also included in the budget document.

<u>Purchased Power Costs</u>…The financial model incorporates the following assumptions as they relate to purchased power over the term of the model.

- Capacity Costs: The current model anticipates the cost impacts of the termination of the SPS Power Agreement; the commencement of a 24-month SPS Capacity Agreement, which will reduce capacity costs in FY 2018-19 through FY 2020-21; and the elimination of the SPP capacity charges related to the Affected Load, after June 2021, due to the fact that ERCOT is an energy-only market without a capacity requirement.
- Energy and Fuel Costs: Estimates are based on anticipated costs for the Unaffected Load remaining in SPP. The current model anticipates that LP&L will opt-in to the ERCOT competitive retail electric market by June 1, 2021. LP&L does not expect to operate as a REP, therefore, the model does not anticipate any purchases of energy in ERCOT for that portion of the load. The model also envisions changes in the way LP&L will utilize the Cooke, Brandon and Massengale Units for its own needs as well as the anticipated costs related to WTMPA's power purchase agreement with Elk City II Wind, LLC.
- Transmission Costs: Projected expenses are based on current transmission costs in SPP grown at a historical growth rate totaling 9.6%. Beginning in FY 2020-21, transmission costs begin to shift to ERCOT related to the integration. Transmission costs in SPP are charged on a one-year lag, therefore, transmission costs are expected to rise dramatically at the time of integration due to transmission costs incurred in both SPP and in ERCOT before reducing to the amounts required for transmission costs in ERCOT for the Affected Load and in SPP for the Unaffected Load.

<u>Operating Expenses</u>….As LP&L continues to evolve, the staffing needs of the utility continue to reflect that evolution. It is anticipated that the T&D cost centers will need additional full-time employees as the focus of work shifts from the large capital program to operations and maintenance of the upgraded T&D network. These increases are expected to be partially offset by the reduction of full-time employees in the Production and Customer Service functions of LP&L.

The necessity of the generating units will be evaluated over the next two years, but the model currently envisions a downsizing of the Production function beginning at the time of integration, with a complete phase-out in the two years following integration. The opt-in study and a review of the energy markets in ERCOT will determine whether or not the units will be decommissioned.

<u>Fund-Level Expenses</u>…The following assumptions, of a material nature, are incorporated into the financial model for fund-level expenses.

- Debt Service: The debt service for LP&L is anticipated to increase substantially throughout the term of the financial model. This increase is driven largely by the expected issuance of approximately $295 million in 30-year revenue bonds to fund the construction of transmission lines necessary for the reliability of the LP&L system and for the integration into ERCOT. The new TCOS revenue stream covers the increased cost of debt and eliminates the impact of those costs on LP&L customers.
- SPS Hold Harmless Payment (see the "Hold Harmless Payments" section found in the "THE SYSTEM – Future Power Supply" for more information).
- Franchise Fee Equivalent ("FFE") and Payment in Lieu of Taxes ("PILOT"): Currently, the FFE and PILOT transfers are computed as a percent of metered revenues (five percent and one percent respectively) (see "Franchise Fee Equivalent, Payment in Lieu of Property Taxes and the General Reserve" below). In order to minimize the financial impact to the City's General Fund of opting-in to the competitive retail market in ERCOT, the FFE and PILOT transfer calculations are proposed to be changed to a "cents-per-kilowatt hour" (¢/kWh) fee at the time LP&L integrates the Affected Load to ERCOT. This calculation will continue to provide revenues, approximately at the current level, to compensate the City for LP&L placing its facilities (distribution lines, transmission lines, and meters) in the public right-of-way.
- Transfer to Capital: The capital program related to the transmission assets is largely debt financed. The financial model anticipates the percent of cash funded capital at approximately 27 percent from FY 2013-14 through FY 2023-24. However, the amount of cash funding averages roughly $17.1 million per year for the next five years, which is greater than the previous five-year average of $12.3 million per year.

Base Rate Adjustments... In FY 2014-15, LP&L developed a 6-year program that predicted the need to annually adjust the base rate by 5.75% through FY 2018-19 to support significant capital investments designed to improve the reliability, capacity and strength of the transmission grid and to enhance customer service. Through cost-cutting measures and restructuring of the capital program, LP&L proposed a 5.00% base rate adjustment for FY 2017-18 and announced that the base rate adjustment originally proposed for FY 2018-19 would not be necessary. LP&L management presented a budget that aligns with the previous year's forecast and did not recommend a base rate increase for FY 2018-19. The financial model does not anticipate base rate increases throughout the time frame of the model. Base rates will be analyzed as a part of the opt-in study and may be adjusted based on the outcome of that study to allocate those customer charges between customers served by the ERCOT system and customers served by the SPP system. Any rate increase recommended by LP&L to the City Council for approval will be based on the operating and capital needs of LP&L. No assurance can be given that future rate increases recommended by LP&L to the City Council will be approved by the City Council, or, if approved, what the actual level of the rate increase will be. The following chart is a summary of the base rate increases for the previous five years:

LP&L Historical Base Rate Increases

Effective Date	Base Rate Increase	Council Vote
May 24, 2013	9.70%	6-1
October 1, 2014	5.75%	7-0
October 1, 2015	5.75%	6-1
October 1, 2016	5.75%	7-0
October 1, 2017	5.00%	7-0

Purchased Power Recovery Factor… In December 2013, the Electric Utility Board and the City Council passed an amendment to the LP&L Rate Tariff that provides for the recovery of all purchased power costs incurred by LP&L in serving system demand and energy requirements. The amendment adopted a seasonal purchased power recovery factor ("PPRF") which is scheduled to be adjusted a minimum of two times per year: once during the summer season of June through September and once during the non-summer season of October through May.

The PPRF was established with the intention of matching the pass-through revenues with actual purchased power costs over the course of a fiscal year, giving consideration to seasonal fluctuations in load and in purchased power prices. The amendment allows for the PPRF to be adjusted more frequently if any over- or under-recovery exceeds the pre-defined maximum variance.

A balancing account was also established, with a cap of five percent of total annual forecasted purchased power costs, to manage any monthly over or under-recovery of purchased power costs. If at any time the cumulative balance is greater than the balancing account cap, an adjustment may be made to the PPRF with the intention of refunding the over-recovered amount. Additionally, if at any time the cumulative balancing account approaches zero or is less than zero, an adjustment may be made to the PPRF with the intention of replenishing the balancing account.

LP&L tracks actual revenues collected from the PPRF and compares these revenues to the actual purchased power costs incurred each month. The cumulative balance is reported to the Electric Utility Board on a monthly basis. As of September 30, 2017, the $6.0 million under-recovery from FY 2016 was partially recovered from customers and purchased power revenues which exceeded purchased power costs on a cumulative basis by approximately $1.2 million, improving the under-recovered amount to $4.8 million. The financial statements recognize the under-collection as an accounts receivable on the Statement of Net Position, and incorporates the associated revenue on the Statement of Revenue, Expense, and Changes in Net Position.

A change to the LP&L Rate Tariff is proposed for FY 2018-19. The proposal would require that beginning on June 1, 2019 and extending until June 1, 2021, the PPRF balancing account cap will be increased to $24 million. The SPS Capacity Agreement will begin on June 1, 2019, which is expected to provide significant savings compared to the SPS Power Agreement that expires on May 31, 2019. The estimated savings achieved through the SPS Capacity Agreement will be reserved in order to provide funds for the $24 million hold-harmless payment due to SPS, which is currently anticipated to be payable on or about June 1, 2021 (see "Hold Harmless Payments" sub-section under "THE SYSTEM – Future Power Supply" for additional information).

Transmission Cost of Service Revenues...The new TCOS revenues are not expected to begin until June 2021 and are ultimately expected to total roughly $44.8 million per year (excluding the five year hold harmless reduction). The financial model incorporates the calculation of TCOS revenues based on 1.5x the principal and interest for the debt required to fund the upgrades and interconnection of LP&L's transmission system, plus any existing debt service functionalized to transmission. Additionally, operations and maintenance costs that can be recovered in transmission rates have been quantified and included as part of the estimated revenues.

Franchise Fee Equivalent, Payment in Lieu of Property Taxes and the General Reserve…Under the terms of the LP&L Governance Ordinance, the Electric Utility Board shall first fully meet all bond reserve or fund obligations defined in any bond covenant for the City's electric utility prior to paying any FFE, making any PILOT, and prior to disbursing any funds from the "General Reserve" of the City's electric utility.

After providing for sufficient funds to meet the obligations mentioned above, the Electric Utility Board shall maintain a General Reserve equal to three (3) months gross revenue generated from all retail electric sales (the "GRR") as determined by taking the average monthly GRR from the previous fiscal year as shown in the latest comprehensive annual financial report ("CAFR"). The General Reserve may be used for rate stabilization, unforeseen emergency situations and for meeting the electric utility demand of any rapid or unforeseen increase in residential and/or commercial development.

Under the terms of the LP&L Governance Ordinance, the Electric Utility Board shall transfer to the City a FFE in the amount of five percent (5%) of the GRR and a PILOT in the amount of one percent (1%) of the GRR. The transfers shall be made on the 15th day of each month and shall be based on the GRR of LP&L during the preceding calendar month (see "Fund-Level Expenses" above for a discussion of the expected changes to the FFE and PILOT).

For budgeting purposes, on or before May 1st of each year, the Electric Utility Board shall report to the City Council their estimate of the General Reserve, the GRR, and the resulting franchise fee and PILOT.

Subject to the approval of the Electric Utility Board, any remaining General Reserve may be refunded to the ratepayers of the City's electric utility within six (6) months following the fiscal year in which the General Reserve balance exceeds three (3) months of GRR.

The General Reserve shall be based on funds not otherwise committed, and generally defined as "current assets" less "current liabilities" as those terms are defined in (1) and (2) below:

(1) Current assets, as classified in the latest CAFR of the City's electric utility fund, excluding cash committed to capital projects and other non-cash assets.

(2) Current liabilities, as classified in the latest CAFR of the city's electric utility fund, excluding non-cash liabilities and customer deposits. Current liabilities will also exclude accrued interest payable and leases payable (as these current liabilities will be paid from revenues generated in the subsequent fiscal year).

In fiscal year 2017, the net amount transferred by LP&L to the City was $14,485,488. In fiscal year 2016, the amount transferred by LP&L to the City was $13,385,073 (see "FINANCIAL POLICIES – Policies – Electric Enterprise Fund Balance").

As of September 30, 2017, the General Reserve totaled $64.2 million, which was $5.2 million above the stated policy goal. Additionally, the General Reserve is expected to increase to $70.8 million by September 30, 2018, or $4.9 million above the stated policy goal. The financial model anticipates that reserves will remain above policy throughout the planning horizon. The reserve requirement is expected to see a reduction beginning in FY 2021-22 as purchased power revenues decrease associated with the opt-in to the competitive market, thus reducing the risk and volatility associated with purchased power.

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY AND THE SYSTEM

Wholesale Electric Deregulation

Legislation was enacted by the Texas Legislature in 1995 that deregulated wholesale electric rates and services. In order to promote wholesale electric competition, such legislation directed the PUC to adopt rules requiring all transmission system owners to make their transmission systems available for use by others at prices and on terms comparable to each respective owner's use of its system for its own wholesale transactions.

On February 7, 1996, the PUC adopted statewide open access rules (the "State Open Access Rules") to implement PURA's requirement that all electric utilities which own transmission facilities provide access to their transmission systems under rates, terms, and conditions comparable to the rates, terms and conditions by which the utilities use their transmission systems for their own sales. These rules have been amended several times since they were initially adopted, but the fundamental open access requirements remain. Because the City is situated in the SPP, the FERC has jurisdiction over the rates, terms and conditions applicable to public utilities furnishing transmission services to the City which do not furnish transmission services to other public utilities and thus, the State Open Access Rules, to date, have had no impact upon the City. However the State Open Access Rules would apply to the City if and when LP&L integrates into the ERCOT grid. See the information under the heading "Federal Regulation of Electric Utilities" below for a description of FERC regulatory matters that may have an impact on LP&L's ability to purchase or sell energy from off-system sources.

Retail Electric Deregulation

During the 1999 legislative session, the Texas Legislature enacted Senate Bill ("SB") 7, which amended the Public Utility Regulatory Act ("PURA") and fundamentally redefined and restructured the Texas electric industry to provide for retail electric open competition beginning in 2002 and continued electric transmission wholesale open access. PURA was further amended in several subsequent legislative sessions to address the areas of the State located outside of ERCOT, including the area served by LP&L. For areas outside of ERCOT which encompass the LP&L System, retail competition was deferred until the later of January 1, 2007 or until a utility is authorized by the PUC to implement customer choice. If LP&L integrates into ERCOT as expected, then certain provisions of PURA enacted through SB 7 and as amended in subsequent legislative sessions will apply to LP&L. For that reason, a brief description of the key provisions in PURA that were added through the enactment of SB 7 is set forth below.

SB 7 included provisions that apply directly to municipally-owned utilities ("Municipal Utilities"), as well as other provisions that govern IOUs and electric cooperatives ("Electric Coops"). As amended by SB 7, PURA provided that retail customers of IOUs that are within the ERCOT region of the State could choose their electric energy supplier as of January 1, 2002, as well as the retail customers of those Municipal Utilities and Electric Coops that elected, on or after that date, to participate in retail electric competition.

SB 7 required affected IOUs to separate retail energy service activities from regulated utility activities by September 1, 2000 and unbundle their generation, transmission/distribution, and retail electric sales functions into separate units by January 1, 2002. To meet these requirements, an IOU could choose to sell one or more of its lines of business to independent entities to create separate but affiliated companies that may be owned by a common holding company, but which must operate largely independent of each other. The services offered by the remaining regulated entities must be available to other parties on a non-discriminatory basis. PURA provides that Municipal Utilities and Electric Coops that opt-in to competition are not required to unbundle their electric system components. To date, none of the Municipal Utilities have opened their service areas to competition, although it is possible that political and economic pressures may result in opened municipal service areas in the future, particularly in areas that have relatively expensive electric service.

As amended by SB 7, PURA provides that generating assets of IOUs are owned by "Power Generation Companies," which must register with the PUC and must comply with certain rules that are intended to protect consumers, but are otherwise unregulated and may sell wholesale electricity at market prices. IOU owners of transmission and/or distribution facilities are "Transmission and Distribution Utilities" and are fully regulated by the PUC. Transmission and Distribution Utilities, Municipal Utilities and Electric Coops are classified as either Transmission Service Providers ("TSPs") to the extent they operate power lines at a voltage of 60 kV or above, or Distribution Service Providers ("DSPs") to the extent that they operate power lines at a voltage of less than 60 kV. A Transmission and Distribution Utility can be both a TSP and a DSP. Retail sales activities are performed by companies called REPs, which are the only entities authorized to sell electricity to retail customers (other than Municipal Utilities and Electric Coops within their service areas, or, if they have adopted retail competition, outside their service areas). REPs must register with the PUC, demonstrate financial capabilities, and comply with certain consumer protection requirements. REPs buy electricity from Power Generation Companies, PMCs, or other parties through Qualified Scheduling Entities and resell that electricity to retail customers at any location in the deregulated portion of the State (other than within service areas of Municipal Utilities and Electric Coops that have not opened their service areas to retail competition). Transmission and Distribution Utilities and any Municipal Utilities and Electric Coops that have chosen to participate in competition are obligated to deliver the electricity to retail customers, and all of these entities are required to transport power to wholesale buyers. The PUC has the obligation to review and approve the construction of new Transmission and Distribution Utilities' transmission facilities, and is empowered to order the construction of new facilities to relieve transmission bottlenecks. Transmission and Distribution Utilities are required to provide access to both their transmission and distribution systems on a non-discriminatory basis to all eligible customers. Rates for the use of distribution systems of Municipal Utilities and Electric Coops are exclusively within the jurisdiction of these entities' governing bodies rather than the PUC. Each type of unbundled company of the formerly bundled IOUs is prohibited from providing services that are provided by the other types of unbundled companies.

PURA as amended by SB 7 also provides a number of consumer protection provisions. Every area of the State participating in retail competition has a "Provider of Last Resort" ("POLR"); those POLRs serving in former service areas of IOUs are selected and approved by the PUC. A POLR is a REP that must offer to sell electricity to any retail customer in its designated area at a standard rate approved by the PUC. A POLR for a particular service area must also serve any customer whose REP has failed to provide service. Each Municipal Utility and Electric Coop that opts-in to open competition shall appoint itself or another entity as the POLR for such service territory, and the respective Municipal Utility or Electric Coop set the rates for such respective POLR, rather than the PUC. In the event that no other entity is available to serve in that capacity, the Municipal Utility serves as the POLR.

Municipal Utilities and Electric Coops are largely exempt from the retail customer choice requirements enacted through SB 7. The governing bodies of Municipal Utilities and Electric Coops have the sole discretion to determine whether and when to open their service territories to retail competition. However, if a Municipal Utility or Electric Coop has not voted to open its territory, it will not be able to compete for retail energy customers at unregulated rates outside its traditional service territory. While IOUs unbundled their generation, transmission and distribution, and retail sales activities, Municipal Utilities and Electric Coops retain the discretion to determine whether to unbundle those business activities.

Municipal Utilities and Electric Coops will also determine the rates for use of their distribution systems after they open their territories to competition, although the PUC will determine the terms and conditions applicable to access to those systems. The PUC determines the rates for the transmission systems owned by Municipal Utilities and Electric Coops. PURA also permits Municipal Utilities and Electric Coops to recover their "stranded costs," through collection of a non-bypassable transition charge, from their customers. Unlike IOUs, the governing board of a Municipal Utility determines the amount of stranded costs to be recovered pursuant to rules and procedures established by such governing board. Municipal Utilities and Electric Coops are also permitted to recover their respective stranded costs through the issuance of bonds in a similar fashion to the IOUs. Among other provisions, SB 7 provided that nothing therein or in any rule adopted under it may impair any contracts, covenants, or obligations between municipalities and bondholders of revenue bonds issued by municipalities, and that nothing in SB 7 may impair the tax-exempt status of municipalities or compel them to use facilities in a manner that violates any bond covenants or other tax-exemption restrictions. SB 7 also improved the competitive position of Municipal Utilities by allowing local governing bodies, whether or not they implement retail choice, to adopt alternative procurement processes under which less restrictive competitive bidding requirements can apply, and to implement more liberal policies for the sale and exchange of real estate. Also, matters affecting the competitiveness of Municipal Utilities were made exempt from disclosure under the Texas Open Meetings and Public Information acts, and the right of Municipal Utilities to enter into risk management and hedging contracts for fuel and energy was clarified.

In 2001, in House Bill ("HB") 1692 and in subsequent legislative sessions, PURA was amended to address retail competition in areas of the State outside of ERCOT. PURA provides that retail competition in the area outside of ERCOT which includes LP&L could only occur if the utility is authorized by the PUC to implement customer choice. During the period such utilities are not participating in retail competition, they will continue to be regulated under traditional cost of service regulation by the PUC. PURA provides that REPs may not offer retail service to customers located outside of ERCOT until such time that the region is opened to competition by the PUC, as described below.

For those areas outside of ERCOT that include LP&L, the PUC may certify a utility to enter customer choice only if the PUC finds the utility has sufficient transmission facilities to provide customers access to power and capacity from non-affiliated suppliers at a level that is comparable to the access to power and energy from capacity controlled by non-affiliated suppliers within the ERCOT region.

Each electric utility that chooses to participate in customer choice must file a transition to competition plan with the PUC that must identify how such utility intends to mitigate market power and achieve full customer choice, including specific alternatives for constructing additional transmission facilities, auctioning rights to generation capacity, divesting generation capacity, or any other measure that is consistent with the public interest. Such utility must also include in the transition plan a provision to establish a price to beat for residential customers and commercial customers having a peak load of 1,000 kilowatts or less. PURA prohibits the PUC, if an electric utility chooses on or after January 1, 2007, to participate in customer choice, from authorizing customer choice until the applicable power region has been certified as a qualifying power region in accordance with the requirements contained in SB 7, including that the total capacity owned and controlled by each such electric utility and its affiliates does not exceed 20 percent of the total installed generation capacity within the constrained geographic region served by each such electric utility plus the total available transmission capacity capable of delivering firm power and energy to that constrained geographic region.

PURA also prohibits such an electric utility from choosing to participate in customer choice unless the affiliated Power Generation Company makes a commitment to maintain and does maintain rates that are based on cost of service for any Municipal Electric Utility that was a wholesale customer on the date the utility chooses to participate in customer choice and was purchasing power at rates that were based on cost of service.

Payment to Transmission Service Providers in ERCOT

Payment to TSPs by the DSPs… Each TSP in ERCOT charges each DSP in ERCOT a monthly transmission service charge equal to the product of the respective TSP's monthly transmission rate, based on the annual rate approved by the PUC, and the particular DSP's share of the average coincident peak load for all of ERCOT for June, July, August and September of the previous calendar year (the "4-Month Coincident Peak"). Such payments are made subject to terms and conditions required by PUC rules. Generally, such payments must be made so that the TSP receives the funds by the 35th calendar day after the issuance of the invoice. If a DSP fails to make this payment in the allotted time and such failure is not corrected within 30 calendar days after the TSP notifies the DSP of such failure, the DSP shall be considered to be in default.

Payment to the DSPs by the REPs… A DSP bills an REP whose retail customers receive their electric power from the distribution facilities of the DSP for the cost of the delivery of that power, including the transmission and distribution costs. DSPs send monthly billing invoices to REPs. Payment for all electric delivery charges invoiced to the DSP is generally due approximately 35 calendar days later. The tariff for retail delivery service specifically provides that payments by the REP are due without regard to whether the REP has received payment from its retail customers. Any payments not received by the DSP by the due date are considered delinquent and subject to a one-time late fee of 5% of the delinquent balance. The DSP must notify the REP of such delinquency. The REP has a ten calendar day grace period to pay the delinquent balance before the REP is considered to be in default. If at the end of the grace period the only remaining amount to be paid by the REP is the 5% penalty, the REP will not be considered to be in default for an additional 30 calendar days if such penalty is not paid.

Federal Regulation of Electric Utilities

The Energy Policy Act of 1992 . . . The Federal Energy Policy Act of 1992 (the "1992 Energy Act"), greatly expanded the authority of FERC to order utilities, including utilities within SPP, to provide transmission service for other utilities, qualifying facilities, and independent power producers. FERC also has the authority to determine the prices that may be charged for transmission, but has generally deferred to the SPP for electric transmission and open access rules for access and pricing within SPP and to the PUC for electric transmission and open access rules for access and pricing within ERCOT.

Retail Wheeling . . . The authority to order retail wheeling, which allows a retail customer to be located in one utility's service area and to obtain power from another utility or non-utility source, is specifically excluded from the enhanced authority granted to FERC under the 1992 Energy Act; however, while the states may have authority to determine whether retail wheeling will be permitted, FERC has determined that it has jurisdiction over the rates, terms and conditions of retail wheeling.

FERC Rules and Federal Regulation of Electric Utilities . . . To establish foundations necessary to develop a competitive wholesale electricity market and effectuate the transmission access provisions of the 1992 Energy Act, on April 24, 1996, FERC issued two final rules ("FERC Final Rules") on non-discriminatory open access transmission services by public utilities and stranded cost recovery. The first of FERC Final Rules, Order No. 888, requires all public utilities that own, control, or operate facilities used for transmitting electric energy in interstate commerce to (i) file open-access, non-discriminatory transmission tariffs containing, at a minimum, the non-price terms and conditions set forth in the order and (ii) functionally unbundle wholesale power services by (a) applying unified transmission tariffs system to all customers, (b) providing separate rate systems for wholesale generation, transmission, and ancillary services and (c) relying on the same electronic information dissemination network that its transmission customers rely on in selling and purchasing energy. The second of FERC Final Rules, Order No. 889, requires all public utilities to establish or participate in an Open Access Same-Time Information System (OASIS) that meets certain specifications and comply with standards of conduct designed to prevent employees of a public utility (or any employees of its affiliates) engaged in wholesale power marketing functions from obtaining preferential access to pertinent transmission system information.

FERC stated that its overall objective is to ensure that all participants in wholesale electricity markets have non-discriminatory open access to transmission service, including network transmission service and ancillary services. FERC also indicated that it intends to apply the principles set forth in FERC Rules to the maximum extent to municipal and other non-FERC regulated utilities, both in deciding cases brought under the Federal Power Act of 1935 and by requiring such utilities to agree to provide open access transmission service as a condition to securing transmission service from jurisdictional IOUs under open access tariffs.

In addition, on December 20, 1999, FERC adopted rules to establish Regional Transmission Organizations ("RTOs"). The rules contemplate RTOs as voluntary participation associations of power-transmission-owning entities, comprised of public and non-public utility entities, that would more efficiently address operational and reliability issues confronting the industry, in particular, by improving grid reliability, increasing efficiencies in transmission grid management, preventing discriminatory practices, and improving market performance.

FERC Rules have a significant impact on the operations of municipally-owned and other non FERC regulated utilities, such as LP&L, and have significantly changed the competitive climate in which the non-FERC regulated utilities operate, giving their customers much greater access to alternative sources of electric transmission services. The rules require them to provide open access transmission service conforming to the requirements for IOUs whenever they are properly requested to do so under the 1992 Energy Act or as a condition of taking transmission service from an IOU. In certain circumstances, the non-FERC regulated utilities are required to pay compensation to their present suppliers of wholesale power and energy for stranded costs that may arise when the non-FERC regulated utilities exercise their option to switch to an alternative supplier of electricity.

Energy Policy Act of 2005 . . . The Energy Policy Act of 2005 ("EP Act 2005") established the Electric Reliability Organization ("ERO") for the purposes of establishing and enforcing reliability standards for the bulk-power system. The term "reliable operation" means operating the elements of the bulk-power system within equipment and electric system thermal, voltage, and stability limits so that the instability, uncontrolled separation, or cascading failures of such system will not occur as a result of a sudden disturbance, including a cyber-security incident or unanticipated failure of system elements. FERC certified the North American Electric Reliability Corporation ("NERC") as ERO and has jurisdiction over NERC's ERO actions. EP Act 2005 also modified the Public Utility Regulatory Policies Act of 1978 ("PURPA") to include residential net metering and smart metering, and prospectively repealed the mandatory purchase requirement.

As a consequence of EP Act 2005, SPP maintains its reliability functions in a separate entity called the SPP Reliability Entity, and ERCOT maintains its reliability functions in a separate entity called the Texas Reliability Entity. Additionally, LP&L has implemented a residential net metering program in its retail tariff.

Acid Rain Provisions of the 1990 Clean Air Act Amendments . . . On November 15, 1990, legislation was signed into law that imposed additional requirements under the Federal Clean Air Act (the "FCAA" or the "1990 Amendments"). Among other requirements, the 1990 Amendments seek to address acid rain deposition through the reduction of sulfur dioxide and nitrogen oxide emissions from electric utility power plants, particularly those fueled by coal.

The U.S. Environmental Protection Agency ("EPA") issued a final rule implementing the nitrogen oxide acid rain provisions under Section 407 of the FCAA on March 22, 1994. The rule established performance standards for controlling emissions from coal-fired dry bottom and tangentially fired boilers (Group 1 boilers). Phase I units were required to begin complying with these annual nitrogen oxide emission limits beginning January 1, 1995.

In December 1996, the EPA issued a rule implementing the second phase of the nitrogen oxide acid rain program. The rule lowered the nitrogen oxide control standards for Phase II units with Group I boilers and became effective on January 1, 2000. However, the final rule issued in March 1994 provides an "early election" option for those Phase II units that are capable of achieving early compliance with the Phase I nitrogen oxide standards. As an incentive for early compliance, the early election program allowed participating units to defer compliance with any more stringent nitrogen oxide Phase II standards until January 1, 2008.

LP&L has affected utility units under the acid disposition control program of the FCAA and has obtained permits from the Texas Commission on Environmental Quality, a state agency with an EPA-approved permitting program to emit sulfur dioxide and nitrogen oxide.

Clean Air Act Reforms . . . Given the piecemeal, uncoordinated, and uncertain approach to air regulations, an integrated "multi-pollutant control" approach to the FCAA may be considered. In fact, the National Energy Policy Report recommended that EPA work with the U.S. Congress to propose legislation that would establish a flexible market-based program to reduce and cap emissions of sulfur dioxide, nitrogen oxides, and mercury. To this end, legislation has been introduced in Congress attempting to address emissions, but as of the date of this Official Statement, comprehensive legislation dealing with these matters has not been enacted.

LP&L cannot make any prediction as to whether legislation will be enacted into law and what the impact any such legislation may have on the operations or business plan of LP&L. Recent administrative changes at EPA may further impact approaches taken to address how emissions may be regulated.

Mercury Emission Regulation . . . Federal and state mercury air emission regulations apply to the fuel source for the combustion process. Such regulations do not affect LP&L's operational power plant assets because the assets are fueled by natural gas only.

Potential Greenhouse Gas Regulation . . . The United States Supreme Court in 2007 rendered its first major decision in the climate change arena, holding that CO2 and other greenhouse gases from motor vehicles are "air pollutants" subject to regulation under the Clean Air Act. Pursuant to this ruling, in May 2010, the EPA issued a final rule regulating greenhouse gas emissions from mobile sources. With this action, greenhouse gas emissions became "subject to regulation" under the Clean Air Act and consequently triggered the regulation of new and modified stationary sources, such as power plants, under the Prevention of Significant Deterioration ("PSD") and Title V Operating Permit programs. In an effort to limit the number of affected sources, the EPA issued a rule on June 3, 2010 (the "Tailoring Rule"), which established an emission threshold for new and modified sources. In addition, the Tailoring Rule established that the inclusion of greenhouse gas emissions in PSD permits for new and modified sources exceeding the emission threshold that began on January 2, 2011.

Proposed EPA regulations relating to cross-state air pollution were vacated by a federal court in August 2012, holding that the EPA had exceeded its authority in the way it apportioned cleanup responsibilities among the affected states impacted by the proposed Cross-State Air Pollution Rule ("CASPR"). On April 29, 2014, the United States Supreme Court ruled in *Environmental Protection Agency v. EME Homer City Generation, L.P.,* 134 S.Ct. 1584 (2014), that the EPA reasonably exercised its authority under the Clean Air Act in adopting CASPR that had been vacated by lower federal court decisions. Specifically, the United States Supreme Court held that the Clean Air Act does not require states be given a second opportunity to file a State Implementation Plan, that EPA is not required to disregard costs and consider exclusively each upwind state's physically proportionate responsibility for each downwind air quality problem, and that EPA's cost-effective allocation of emission reductions among upwind states is a permissible and equitable interpretation of the Clean Air Act. The United States Supreme Court remanded this case and an accompanying case to the lower federal courts for further proceedings consistent with its opinion. The D.C. Circuit Court subsequently lifted the stay on CASPR, and the rule went into effect on January 1, 2015.

There are several recently proposed or pending federal environmental regulations that pertain to power plant and air pollution controls addressing greenhouse gases, including the EPA's Clean Power Plan, which may cause LP&L to face a limited number of CO2 allowances. On February 9, 2016, the U.S. Supreme Court stayed EPA's implementation of the Clean Power Plan while it is being challenged in court, and on April 13, 2017, the EPA published its formal withdrawal of the Clean Power Plan. On December 28, 2017, the EPA issued a notice of new proposed rulemaking for greenhouse gas emissions. LP&L cannot predict whether new legislation or regulations will impose restrictions on emissions of greenhouse gases, or what form such regulation might take. All of LP&L's generation sources emit greenhouse gasses as part of the combustion process, but a greenhouse gas permit primarily relating to CO2 is not required at this point in time. LP&L is making plans for maintaining compliance with any pending regulations and has dedicated regulatory compliance specialists on staff to coordinate environmental and electric reliability compliance efforts.

LP&L is a participant in trade organizations actively monitoring potential greenhouse gas regulatory programs. While there is much uncertainty regarding the outcome of any greenhouse gas program, LP&L believes that it is similarly positioned as any other comparable electric utility with similar electric generation resources and is factoring the best available information into its generation resource decisions.

FINANCIAL POLICIES

Policies

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

Comprehensive Annual Financial Report (CAFR). . . Beginning with the year ended September 30, 2002, the City's CAFR has been presented under the GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus,* and GASB Statement No. 38, *Certain Financial Note Disclosures*. For additional information regarding accounting policies that are applicable to the City, see Note I. "Summary of Significant Accounting Policies" in the financial statements of the City attached as "APPENDIX B – EXCERPTS FROM CITY'S ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED SEPTEMBER 30, 2017". Additionally, for information regarding accounting policies that are applicable to LP&L, see "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" in the financial statements attached as "APPENDIX C – EXCERPTS FROM LP&L'S ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED SEPTEMBER 30, 2017".

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

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

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

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

Electric Enterprise Fund Balance . . . It is the policy of 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 the Electric Utility Board as the governing body for LP&L and requires the Electric Utility Board to (i) maintain sufficient operating cash to satisfy all current accounts payable and (ii) maintain a general reserve fund that is equal to the greater of three months gross retail electric revenue (GRR) as determined by taking the average monthly GRR from the previous fiscal year. This general reserve fund shall be used for operational purposes, rate stabilization and for meeting the electric utility demand of any rapid or unforeseen increase in residential and/or commercial development. According to audited numbers for FY 2017, the target general reserve by ordinance and general reserve for LP&L are as follows:

Enterprise Fund	Target General Reserve by Policy	General Reserve
LP & L	$59.0 million	$64.2 million

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

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

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

(1) Prior to August 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.

(2) Public hearings are conducted to obtain taxpayer comments.

(3) Prior to October 1 the budget is legally enacted through passage of an ordinance.

(4) City Council action is required for the approval of any supplemental appropriations.

(5) The General Fund budgets major classes of revenue and expenditures to the fund level. The City Manager is authorized to transfer budgeted amounts between accounts below the fund level. Any transfer of funds between funds is presented to the City Council for approval by ordinance before the funds are transferred or expended. Appropriations for the General Fund lapse at fiscal year-end.

(6) Certain special revenue funds and the Debt Service Fund are budgeted at the fund level on an annual basis. The Debt Service Fund achieves additional oversight through general obligation bond indenture and other contract provisions.

(7) The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles with the exception of capital leases and capital outlay.

(8) Capital projects and certain grants are also budgeted annually, but their budgets do not lapse at fiscal year-end. These funds have project length budgets which remain in effect until the project is completed and closed.

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

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

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

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

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

Self-insurance – health: $10,745,595

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

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

Administration

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

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

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

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

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

Retirement Plans

LP&L provides pension benefits for all of its full-time employees through the City's pension benefits plan.

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.

Allocation of pension items to LP&L is done on the basis of payroll of LP&L participant employees in relation to total City employees (see "APPENDIX C – EXCERPTS FROM LP&L'S ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED SEPTEMBER 30, 2017 – Note 8: Retirement Plan").

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

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

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

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

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

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

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

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

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

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

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

Other Post-Employment Benefits

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

INVESTMENTS

LP&L pools its investable monies with the City, and the City oversees and administers LP&L's investments. The City invests its investable funds in investments authorized by Texas law, including specifically the Public Funds Investment Act (Chapter 2256, Texas Government Code, and referred to herein as the "PFIA"), in accordance with investment policies approved by the City Council of the City. Both State law and the City's investment policies are subject to change.

Legal Investments

Under State law, the City is authorized to invest in: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (the "FDIC") or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund (the "NCUSIF") or their respective successors; (8) interest-bearing banking deposits, other than those described in clause (7), that (i) are invested through a broker or institution with a main office or branch office in this state and selected by the City in compliance with the PFIA, (ii) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the City's account, (iii) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States, and (iv) the City appoints as its custodian of the banking deposits, in compliance with the PFIA, the institution in clause (8)(i) above, a bank, or a broker-dealer; (9) certificates of deposit and share certificates meeting the requirements of the PFIA (i) that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the FDIC or the NCUSIF, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8), above, or secured in accordance with Chapter 2257, Texas Government Code, or in any other manner and amount provided by law for City deposits, or (ii) where (a) the funds are invested by the City through a broker or institution that has a main office or branch office in the State and selected by the City in compliance with the PFIA, (b) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the account of the City, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and (d) the City appoints, in compliance with the PFIA, the institution in clause (9)(ii)(a) above, a bank, or broker dealer as custodian for the City with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described by clause (1) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers' acceptances with a stated maturity of 270 days or less, if the short-term obligations of the accepting bank, or of the holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or an equivalent by either (i) two nationally recognized credit rating agencies, or (ii) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (13) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission and complies with Securities and Exchange Commission Rule 2a-7; (14) no-load 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.

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

Additional Provisions

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

The City owns LP&L, a municipal electric utility that is engaged in the distribution and sale of electric energy. As an owner of a municipal electric utility, the City has the authority under the PFIA to enter into hedging contracts and related security and insurance agreements in relation to fuel oil, natural gas, coal, nuclear fuel, and electric energy to protect against loss due to price fluctuations. The City has authorized LP&L to enter into hedging transactions pursuant to the PFIA. LP&L has exercised this authority and entered into an options contract with NSP to provide a price ceiling for its energy purchases during the two year transition period beginning June 2019 (see "THE SYSTEM – Future Power Supply – Expiration of SPS Power Agreement and Future Power Supply" herein).

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."

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

SUMMARY OF SELECTED PROVISIONS OF THE ORDINANCE

The following is a summary of certain provisions of the Ordinance authorizing the issuance of the Bonds. Such summary does not purport to be complete and reference should be made to the Ordinance for the complete provisions and precise wording thereof.

Certain Definitions

"Additional Bonds" means the additional parity obligations the City reserves the right to issue in accordance with the terms and conditions prescribed in the Ordinance.

"Average Annual Debt Service" means that amount which, at the time of computation, is derived by dividing the total amount of Debt Service to be paid over a period of years as the same is scheduled to become due and payable by the number of years taken into account in determining the total Debt Service. Capitalized interest payments provided from bond proceeds shall be excluded in making the aforementioned computation.

"Bond" means any of the Bonds.

"Bonds Similarly Secured" means the Previously Issued Bonds, the Bonds and Additional Bonds, if any.

"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.

"Code" means the Internal Revenue Code of 1986, as amended.

"Credit Facility" means any agreement of the City entered into with a financial institution in connection with and for the purpose of (i) enhancing or supporting the creditworthiness of (A) a series of Bonds Similarly Secured or (B) all of the Bonds Similarly Secured, (ii) providing a surety policy in order to fund all or a portion of the Required Reserve for the Bonds Similarly Secured, or (iii) providing liquidity with respect to a series of Bonds Similarly Secured 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 Bonds Similarly Secured; provided that, on the date any such credit facility is issued, any rating agency having an outstanding rating on the Bonds Similarly Secured would not lower the rating on the Bonds Similarly Secured as confirmed in writing by such rating agency. A determination by the City contained in the ordinance authorizing the issuance of Bonds Similarly Secured 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 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 prior to maturity in accordance with the mandatory redemption provisions applicable thereto.

"Fiscal Year" means the twelve 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 the 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.

"Net Revenues" means the gross revenues of the System less expenses of operation and maintenance. Such expenses of operation and maintenance shall not include depreciation charges or amounts or Funds pledged for the Bonds Similarly Secured, but shall include all salaries, labor, materials, repairs, and extensions necessary to render services; provided, however, that in determining "Net Revenues," only such repairs and extensions as in the judgment of the City Council, reasonably and fairly exercised, are necessary to keep the System in operation and render adequate service to the City and inhabitants thereof, or such as might be necessary to meet some physical accident or condition which otherwise would impair the security of the Bonds Similarly Secured, shall be deducted.

"Outstanding" when used in the Ordinance with respect to Bonds Similarly Secured, means, as of the date of determination, all Bonds Similarly Secured theretofore sold, issued and delivered by the City, except:

(1) those Bonds Similarly Secured cancelled or delivered to the transfer agent or registrar for cancellation in connection with the exchange or transfer of such obligations;

(2) those Bonds Similarly Secured paid or deemed to be paid in accordance with the provisions of the Ordinance; and

(3) those Bonds Similarly Secured that have been mutilated, destroyed, lost, or stolen and replacement bonds have been registered and delivered in lieu thereof.

"Previously Issued Bonds" means the Outstanding and unpaid revenue bonds payable from and secured by a first lien on and pledge of the Net Revenues of the System, further identified as follows:

(1) City of Lubbock, Texas, Electric Light and Power System Revenue Bonds, Series 2010, dated October 15, 2010, issued in the original principal amount of $73,295,000, currently outstanding in the aggregate principal amount of $16,970,000 and maturing on April 15 in each of the years 2019 through 2020, inclusive.

(2) City of Lubbock, Texas, Electric Light and Power System Revenue Refunding and Improvement Bonds, Series 2013, dated April 15, 2013, issued in the original principal amount of $16,570,000, currently outstanding in the aggregate principal amount of $8,580,000 and maturing on April 15 in each of the years 2019 through 2024, inclusive.

(3) City of Lubbock, Texas, Electric Light and Power System Revenue Bonds, Series 2014, dated May 1, 2014, issued in the original principal amount of $16,245,000, currently outstanding in the aggregate principal amount of $12,610,000 and maturing on April 15 in each of the years 2019 through 2034, inclusive.

(4) City of Lubbock, Texas, Electric Light and Power System Revenue Bonds, Series 2015, dated April 15, 2015, issued in the original principal amount of $11,865,000, currently outstanding in the aggregate principal amount of $10,630,000 and maturing on April 15 in each of the years 2019 through 2035, inclusive.

(5) City of Lubbock, Texas, Electric Light and Power System Revenue Bonds, Series 2016, dated April 15, 2016, issued in the original principal amount of $7,535,000, currently outstanding in the aggregate principal amount of $6,915,000 and maturing on April 15 in each of the years 2019 through 2036, inclusive and in the years 2041 and 2046.

(6) City of Lubbock, Texas, Electric Light and Power System Revenue Bonds, Series 2017, dated April 15, 2017, issued in the original principal amount of $17,760,000, currently outstanding in the aggregate principal amount of $17,460,000 and maturing on April 15 in each of the years 2019 through 2037, inclusive and in the years 2042 and 2047.

"Reserve Fund Obligations" means cash or investment securities of any of the type or types permitted under the Ordinance.

"System" means all properties, real, personal, mixed or otherwise, now owned or hereafter acquired by the City through purchase, construction or otherwise, and used in connection with the City's Electric, Light and Power System and in anywise pertaining thereto, whether situated within or without the limits of the City.

Security for the Bonds

Pledge of Security . . . The City covenants and agrees that all of the Net Revenues derived from the operation 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 Bonds Similarly Secured, are irrevocably pledged for the payment of the Previously Issued Bonds, the Bonds and Additional Bonds, if issued, and the interest thereon, and ordains that the Previously Issued Bonds, the Bonds and Additional Bonds, if issued, 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 . . . The Bonds, together with the Previously Issued Bonds and any Additional Bonds, are special obligations of the City, payable solely from the pledged Net Revenues, and do not constitute a prohibited indebtedness of the City. Neither the Bonds nor any Additional Bonds shall ever be payable out of funds raised or to be raised by taxation.

Security Interest . . . The City represents that, under Chapter 1208.002, Texas Government Code, a security interest in the Net Revenues pledged to the payment of the Bonds that is created by the City is valid and effective according to the terms of the security agreement and is perfected from the time the security agreement is entered into or adopted continuously through the termination of the security interest, without physical delivery or transfer of control of the property, filing of a document, or another act. The City covenants that, if Chapter 1208.002 is amended at any time while the Bonds are outstanding and unpaid, the City shall take all actions required in order to preserve for the Owners of the Bonds a perfected security interest in the property in which such security interest is granted pursuant to the Ordinance.

Funds and Accounts

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 in the "Electric Light and Power System Fund" (created and established in connection with the issuance of the Previously Issued Bonds and reaffirmed in the Ordinance), which Fund (referred to as the "System Fund") shall continue to be kept and maintained at an official depository bank of the City while the Bonds remain Outstanding. Furthermore, the "Special Electric Light and Power System Revenue Bond Retirement and Reserve Fund" (referred to as the "Bond Fund"), created and established in connection with the issuance of the Previously Issued Bonds and reaffirmed in the Ordinance shall continue to be maintained by the City while the Bonds remain Outstanding. The Bond Fund is and shall continue to be kept and maintained at the City's official depository bank, and moneys deposited in the Bond Fund shall be used for no purpose other than for the payment, redemption and retirement of Bonds Similarly Secured.

System Fund . . . 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:

(1) To the payment of the amounts required to be deposited in the Bond Fund for the payment of principal of and interest on the Bonds Similarly Secured as the same become due and payable; and

(2) To the payment of the amounts, if any, required to be deposited in the Reserve Portion of the Bond Fund to accumulate, restore and maintain the Reserve Requirement as security for the payment of the principal of and interest on the Bonds Similarly Secured.

Bond Fund. . .(a) In addition to the required monthly deposits to the Bond Fund for the payment of principal of and interest on the Previously Issued Bonds, the City agrees and covenants to deposit to the Bond Fund an amount equal to one hundred percent (100%) of the amount required to fully pay the interest on and principal of the Bonds falling due on or before each maturity date and Interest Payment Date, 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 Underwriters. The required monthly deposits to the Bond Fund for the payment of principal of and interest on the Bonds shall continue to be made until such time as (i) the total amount on deposit in the Bond Fund, including the "Reserve Portion" deposited therein, is equal to the amount required to fully pay and discharge all Outstanding Bonds Similarly Secured (principal and interest) or (ii) the Bonds are no longer Outstanding, i.e., the Bonds have been fully paid as to principal and interest or all the Bonds have been refunded. 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.

(b) In addition to the amounts to be deposited in the Bond Fund to pay current principal and interest for the Bonds Similarly Secured, the City covenants and agrees to accumulate and maintain in the Bond Fund a reserve amount (the "Reserve Portion") of Reserve Fund Obligations equal to not less than the Average Annual Debt Service requirements of all Outstanding Bonds Similarly Secured (the "Required Reserve") which shall be calculated and predetermined at the time of issuance of each series of Bonds Similarly Secured. Upon issuance of Additional Bonds, the Required Reserve shall be increased, if required, to an amount equal to the lesser of (i) the Average Annual Debt Service (calculated on a Fiscal Year basis) for all bonds Outstanding, as determined on the date of issuance of each series of Additional Bonds, and annually following each principal payment date or redemption date for the Bonds, the Previously Issued Bonds and any Additional Bonds Outstanding, 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 Reserve Portion of the Bond Fund shall be made available for and reasonably employed in meeting the requirements of the Bond Fund if need be, and if any amount thereof is so employed, and the Reserve Portion in the Bond Fund is less than the Reserve Requirement, or if an event of default under any Credit Facility held in the Reserve Portion of the Bond Fund has occurred and is continuing, the Reserve Requirement shall be restored from Net Revenues in twenty-four (24) approximately equal monthly payments from the first available Net Revenues of the System in the System Fund subject only to the priority of payments hereinabove described under "Funds and Accounts - System Fund."

(c) The City may, at its option, withdraw all surplus on deposit in the Reserve Portion of the Bond Fund over the Required Reserve 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.

(d) For the purpose of determining compliance with the requirements of the subparagraph (b) above, Reserve Fund Obligations shall be valued each year as of the last day of the City's fiscal year at their cost or market value, whichever is lower, except that any direct obligations of the United States (State and Local Government Series) held for the benefit of the Reserve Portion of the Bond Fund in book-entry form shall be continuously valued at their par value or face principal amount.

(e) To the extent permitted by, and in accordance with applicable law and upon approval of the Attorney General of the State of Texas, the City may replace or substitute a Credit Facility for cash or investment securities on deposit in the Reserve Portion of the Bond 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 the Ordinance, on deposit in the Reserve Portion of the Bond Fund which, taken together with the face amount of any existing Credit Facilities, are in excess of the Required Reserve 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. 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.

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

(g) In the event of a deficiency in the Reserve Portion of the Bond Fund, or in the event that on the date of termination or expiration of any Credit Facility or the date of an occurrence of an event of default under the Credit Facility has occurred and is continuing beyond any cure period therefor, if any, there is not on deposit in the Reserve Portion of the Bond Fund sufficient Reserve Fund Obligations, all in an aggregate amount at least equal to the Required Reserve calculated as of the date of such deficiency, termination, expiration or event of default of such Credit Facility, then the City shall restore such deficiency from the first available Net Revenues of the System in the System Fund subject only to the priority of payments hereinabove described under "Funds and Accounts - System Fund."

(h) In the event of the redemption or defeasance of any of the Outstanding Bonds Similarly Secured, any Reserve Fund Obligations on deposit in the Reserve Fund in excess of the Required Reserve may be withdrawn and transferred, at the option of the City and subject to the last sentence of this subparagraph, to the System Fund, as a result of (i) the redemption of the Outstanding Bonds Similarly Secured, or (ii) funds for the payment of the Outstanding Bonds Similarly Secured having been deposited irrevocably with the paying agent or place of payment therefor in the manner described in the Ordinance, the result of such deposit being that such Outstanding Bonds Similarly Secured no longer are deemed to be Outstanding under the terms of the 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.

(i) In the event there is a draw upon the 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 (i) shall be subject to the provisions of subparagraph (f) hereof, and (ii) shall be subordinate and junior in right of payment to the payment of principal of and premium, if any, and interest on the Bonds Similarly Secured.

Payment of Bonds . . . While any of the Bonds are Outstanding, the proper officers of the City are authorized to transfer or cause to be transferred to the Paying Agent/Registrar, from funds on deposit in the Bond Fund, including the Reserve Portion, if necessary, amounts sufficient to fully pay and discharge promptly as each installment of interest and principal on the Bonds accrues or matures or comes due by reason of redemption prior to maturity; 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 the Bond Fund the full amounts above stipulated, amounts equivalent to such deficiencies shall be set apart and paid into the Bond Fund from the first available and unallocated Net Revenues of the System in the following month or months and such payments shall be in addition to the amounts to be otherwise paid into the Bond Fund pursuant to the Ordinance during such month or months.

Security of Funds . . . Money in any Fund established or affirmed pursuant to the Ordinance or any ordinance authorizing the issuance of Previously Issued Bonds, and any Additional Bonds, 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 the Reserve Portion of the Bond Fund shall not have a maturity in excess of five (5) years.

Particular Representations and Covenants

Additional Bonds . . . In addition to the right to issue bonds of inferior lien as authorized by the laws of the State of Texas, the City 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 Previously Issued Bonds and 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 installments, provided, however, that none shall be issued unless and until the following conditions have been met:

(a) The Mayor and Chief Financial Officer have certified that the City is not then in default as to any covenant, condition or obligation prescribed by any ordinance authorizing the issuance of Bonds Similarly Secured then Outstanding, including showings that all interest, sinking and reserve funds then provided for have been fully maintained in accordance with the provisions of said ordinances;

(b) The applicable laws of the State of Texas in force at the time provide permission and authority for the issuance of such Additional Bonds and have been fully complied with;

(c) The Additional Bonds are made to mature on April 15 or October 15, or both, in each of the years in which they are provided to mature;

(d) The Reserve Portion of the Bond Fund shall be accumulated and supplemented as necessary to maintain a sum which shall be not less than the Average Annual Debt Service requirements of all bonds secured by a first lien on and pledge of the Net Revenues of the System which will be outstanding upon the issuance of any series of Additional Bonds. Accordingly, each ordinance authorizing the issuance of any series of Additional Bonds shall provide for any required increase in the Reserve Portion, and if supplementation is necessary to meet all conditions of said Reserve Portion, said ordinances shall make provision that same be supplemented by the required amounts in equal monthly installments over a period of not to exceed sixty (60) calendar months from the dating of such Additional Bonds; and

(e) The City has secured a certificate or opinion from an independent certified public accountant 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 eighteen (18) consecutive months prior to the month of adoption of the ordinance authorizing the Additional Bonds, equal to at least 1.25 times the Average Annual Debt Service requirements of the Bonds Similarly Secured which will be outstanding upon the issuance of the Additional Bonds; and further demonstrating that for the same period as is employed in arriving at the aforementioned test said Net Revenues were equal to at least 1.10 times the maximum annual principal and interest requirements of all Bonds Similarly Secured as will be outstanding upon the issuance of the Additional Bonds. In making a determination of the Net Revenues, the certified public accountant 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 his certification or opinion based on such change in charges being in effect for the entire period covered by the certificate or opinion of the certified public accountant.

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 issuance of the Bonds and the Previously Issued Bonds.

Rates and Charges . . . The City covenants and agrees that rates and charges for electric power and energy afforded by the System will be established and maintained to provide revenues sufficient at all times to pay:

(1) all necessary and reasonable expenses of operating and maintaining the System as set forth in the definition "Net Revenues" and to recover depreciation;

(2) the amounts required to be deposited to the Bond Fund to pay the principal of and interest on the Bonds Similarly Secured as the same becomes due and payable and to accumulate and maintain the reserve amount required to be deposited therein; and

(3) 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. . . In regard to the operations and properties of the System, 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 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 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 the 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;

(e) A list of the securities which have been on deposit as security for the money in the Bond Fund throughout the Fiscal Year and a list of the securities, if any, in which the Reserve Portion of the Bond Fund has been invested; and

(f) The total number of metered and unmetered customers, if any, connected with the System at the end of the Fiscal Year.

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 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 Previously Issued Bonds, the Bonds and the Additional Bonds, when issued, shall be ratably secured under said pledge in such manner that one bond shall have no preference over any other bond of said issues.

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

(c) 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 the 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 the Ordinance. In the event the City sells the System, the City will use proceeds of such sale to provide for final payment of the Bonds, the Previously Issued Bonds, and any Additional Bonds.

(d) That, it will cause to be rendered monthly to each customer receiving electric 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.

(e) 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 the Ordinance.

(f) 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.

Default and Remedies

Events of Default . . . Each of the following occurrences or events for the purpose of the Ordinance is declared to be an event of default ("Event of Default"):

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

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

Remedies for Default . . . 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 the 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 the Ordinance. It is provided in the Ordinance that all such proceedings shall be instituted and maintained for the equal benefit of all Owners of Bonds then Outstanding.

Remedies Not Exclusive . . . No remedy 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 pursuant to the Ordinance or under the Bonds or now or hereafter existing at law or in equity; provided, however, that notwithstanding any other provision of the Ordinance, the right to accelerate the debt evidenced by the Bonds shall not be available as a remedy under the Ordinance. The exercise of any remedy 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

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

Amendments

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

TAX MATTERS

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

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

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

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

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

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislature proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

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

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the City or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the Service. Under current procedures, parties other than the City and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of Service positions with which the City legitimately disagrees, may not be practicable. Any action of the Service, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the City or the Beneficial Owners to incur significant expense.

RATINGS

The Bonds are rated "A1" by Moody's Investors Service, Inc., "AA-" by S&P Global Ratings, a Standard and Poor's Financial Services LLC business and "A+" 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.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

LEGAL MATTERS

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

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

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

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The City will provide to the MSRB updated financial information and operating data annually. The information to be updated includes quantitative financial information and operating data with respect to the City of the general type included in this Official Statement in APPENDIX A (Tables 1-12), APPENDIX B and APPENDIX C. The City will provide this information within 6 months after the end of each fiscal year ending in or after 2018. If audited financial statements are not available when the information is provided, the City will provide audited financial statements when and if they become available and unaudited financial statements within 12 months after fiscal year end, unless audited financial statements are sooner provided. Financial statements will be prepared in accordance with the accounting principles described in APPENDIX B and APPENDIX C 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; and (14) appointment of a successor Paying Agent/Registrar or change in the name of the Paying Agent/Registrar, if material.

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

Availability of Information

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

Limitations and Amendments

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

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

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

Compliance with Prior Undertakings

During the last five years, the City has complied in all material respects with its continuing disclosure agreements made in accordance with the Rule 15c2-12.

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.

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 $511,946.76.

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 their 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.

Citigroup Global Markets Inc., an underwriter of the Bonds, has entered into a retail distribution agreement with Fidelity Capital Markets, a division of National Financial Services LLC (together with its affiliates, "Fidelity"). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors at the original issue price through Fidelity. As part of this arrangement, Citigroup Global Markets Inc. will compensate Fidelity for its selling efforts.

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

APPENDIX A

FINANCIAL INFORMATION REGARDING THE SYSTEM

FINANCIAL INFORMATION REGARDING THE SYSTEM

TABLE 1 - GENERATING STATIONS

Manufacturer	Year Installed	Station	Prime Mover	Fuel	Generator Capacity (in MW)	Dependable Capacity (in MW)
Westinghouse	1957	J.R. Massengale No. 6	Steam Turbine	Gas	22	20
Westinghouse	1958	J.R. Massengale No. 7	Steam Turbine	Gas	22	17
Westinghouse	1964	Cooke GT 1	Gas Turbine	Gas	-	-
General Electric	1965	Cooke Steam 1	Steam Turbine	Gas or Oil	46	-
Worthington	1971	Cooke GT 2	Gas Turbine	Gas	21	15
General Electric	1974	Cooke GT 3	Gas Turbine	Gas	24	16
General Electric	1978	Cooke Steam 2	Steam Turbine	Gas or Oil	54	-
General Electric	1990	TX Tech (Brandon 1)	Gas Turbine	Gas	21	20
General Electric	2000	J.R. Massengale No. 8	Gas Turbine	Gas	42	40
					252	128

J.R. Massengale ("JRM") No. 8 operates in combined cycle mode with JRM No. 6 or JRM No. 7. Neither JRM No. 6 or JRM No. 7 run independently. Cooke GT 1 has been retired as of this fiscal year. Cooke Steam 1 and 2 are currently in "mothball" status and are not available to run.

TABLE 2 - HISTORICAL POWER SUPPLY REQUIREMENTS

LP&L's historical peak demand and energy requirements are set forth below. Many factors, such as weather and changes in population, affect electric sales and should be considered when evaluating the power supply requirements of the electric system over the period since 2013 reported below.

For the ten year period ended December 31, 2017, LP&L's average annual demand growth was 6.02%, system energy growth averaged 5.98%, and energy sales grew by an average of 5.85% annually. The ten-year growth rates are due, in large part, to the purchase of the Xcel Lubbock assets in 2010. Annual fluctuations in growth rates since 2011 are largely due to fluctuations in weather.

Fiscal	Peak Demand		Energy Sales[a]		
Year	MW	% Increase	MWh	% Increase	Load Factor (%)
2013	612.3	-0.49%	2,582,264	-0.21%	48.14%
2014	561.4	-8.31%	2,575,688	-0.25%	52.37%
2015	584.5	4.11%	2,558,217	-0.68%	49.96%
2016	620.5	6.16%	2,582,902	0.96%	47.52%
2017	605.0	-2.49%	2,499,374	-3.23%	47.16%

	Net System Requirements		
Fiscal Year	MWh	% Increase	Load Factor (%)
2013	2,678,414	-0.45%	49.94%
2014	2,647,062	-1.17%	53.83%
2015	2,716,971	2.64%	53.06%
2016	2,734,773	0.66%	50.31%
2017	2,654,591	-2.93%	50.08%

[a] Does not include Off System sales.

TABLE 3 - STATISTICAL DATA

	Fiscal Year Ended September 30				
	2017	**2016**	**2015**	**2014**	**2013**
kWh TO SYSTEM	2,769,986,683	2,766,313,158	2,815,451,632	3,011,330,589	3,302,164,621
Sales of kWh					
Residential Service	963,586,038	993,435,884	985,425,352	997,839,854	990,464,737
Commercial Service	1,378,290,129	1,429,984,989	1,411,009,297	1,415,357,363	1,420,682,770
Municipal and Schools	157,497,900	159,481,207	161,782,834	162,491,223	171,116,400
Total Retail Sales	2,499,374,067	2,582,902,080	2,558,217,483	2,575,688,440	2,582,263,907
Wholesale Sales (Off System Sales)	115,421,912	31,625,981	98,481,036	364,268,429	623,849,549
Total Sales to All Customers	2,614,795,979	2,614,528,061	2,656,698,519	2,939,956,869	3,206,113,456
Loss and Unaccounted for	155,190,704	151,785,097	158,753,113	71,373,720	96,051,165
kWh To The System	2,769,986,683	2,766,313,158	2,815,451,632	3,011,330,589	3,302,164,621
FYE Residential Meters	90,912	89,483	88,954	87,881	87,037
FYE Commercial Meters	13,801	13,550	13,453	13,127	13,068
FYE Municipal & School Meters	1,075	1,070	1,068	1,071	1,060
FYE Total Meters	105,788	104,103	103,475	102,079	101,165
Total Plant Peak kW Demand[a]	605,046	620,470	584,485	561,351	612,309

[a] Deducts station power monthly peak (at time of total peak) from total plant peak to calculate net peak to load.

TABLE 4 - TEN LARGEST CUSTOMERS (ANNUAL CONSUMPTION AND REVENUE)

	Fiscal Year Ended September 30, 2017			
	Megawatt Hours[a] Billed	**% of Total**	**Revenues**	**% of Total**
Top 10 Customers	549,663	21.5%	$ 39,179,965	16.2%
Top Two Customers	243,303	9.5%	$ 17,117,874	7.1%

[a] Megawatt Hours ("MWh"); MWh = 1,000 kWh.

TABLE 5 - ANALYSIS OF ELECTRIC BILLS

	Fiscal Year Ended September 30				
	2017	**2016**	**2015**	**2014**	**2013**
All Customer:					
Average Monthly kWh Per Meter	1,988	2,077	2,075	2,112	2,137
Average Monthly Bill Per Meter	$ 189.56	$ 170.37	$ 180.19	$ 175.72	$ 160.13
Average Monthly Revenue Per kWh	$ 0.095352	$ 0.082027	$ 0.086839	$ 0.083201	$ 0.074944
Residential Customer:					
Average Monthly kWh Per Meter	890	927	928	951	953
Average Monthly Bill Per Meter	$ 102.58	$ 93.93	$ 97.87	$ 95.95	$ 86.92
Average Monthly Revenue Per kWh	$ 0.115258	$ 0.101327	$ 0.105463	$ 0.100894	$ 0.091203
Commercial:					
Average Monthly kWh Per Meter	8,557	8,983	8,934	9,011	8,217
Average Monthly Bill Per Meter	$ 705.44	$ 623.25	$ 666.63	$ 645.77	$ 532.04
Average Monthly Revenue Per kWh	$ 0.082440	$ 0.069381	$ 0.074617	$ 0.071665	$ 0.064747
Municipal and School:					
Average Monthly kWh Per Meter	12,250	12,436	12,614	12,728	13,415
Average Monthly Bill Per Meter	$ 1,054.36	$ 935.71	$ 1,004.82	$ 949.78	$ 995.76
Average Monthly Revenue Per kWh	$ 0.086070	$ 0.075242	$ 0.079659	$ 0.074621	$ 0.074229

TABLE 6 - SIX-YEAR CAPITAL IMPROVEMENT PLAN

Fiscal Year Ending September 30	**Total LP&L Capital Improvements[(a)(b)]**
2019	$ 148,495,000
2020	143,980,000
2021	17,405,000
2022	27,180,000
2023	25,095,000
2024	25,370,000
Total	**$ 387,525,000**

(a) Projected, subject to change as the System and the City review priorities and revise the Systems's capital plan annually.

(b) The six-year capital improvement plan has been updated with information from the Proposed FY 2018-19 Operating Budget and Capital Program (the "Budget"). The Budget will go before the City Council for approval in September 2018.

TABLE 7 - REVENUE BOND DEBT SERVICE REQUIREMENTS*

FY Ending	Outstanding Revenue Debt		Plus: The Bonds[a]		Total
30-Sep	Principal[b]	Net Interest	Principal[b]	Net Interest	Requirements
2018	$ 11,515,000	$ 2,999,119			$ 14,514,119
2019	11,995,000	2,507,644	$ 3,545,000	$ 1,456,672	19,504,316
2020	12,440,000	2,032,994	2,985,000	2,016,900	19,474,894
2021	3,910,000	1,451,944	3,135,000	1,867,650	10,364,594
2022	3,960,000	1,618,494	4,210,000	2,934,475	12,722,969
2023	4,125,000	1,789,369	4,420,000	3,947,550	14,281,919
2024	3,635,000	1,597,556	4,640,000	3,726,550	13,599,106
2025	2,195,000	1,429,181	4,875,000	3,494,550	11,993,731
2026	2,280,000	1,340,731	5,115,000	3,250,800	11,986,531
2027	2,155,000	1,236,669	5,375,000	2,995,050	11,761,719
2028	1,855,000	1,138,456	5,640,000	2,726,300	11,359,756
2029	1,940,000	1,054,888	1,915,000	2,444,300	7,354,188
2030	2,025,000	966,663	2,010,000	2,348,550	7,350,213
2031	2,115,000	876,681	2,110,000	2,248,050	7,349,731
2032	2,210,000	784,844	2,215,000	2,142,550	7,352,394
2033	2,300,000	693,619	2,325,000	2,031,800	7,350,419
2034	2,385,000	597,763	2,445,000	1,915,550	7,343,313
2035	1,765,000	498,138	2,565,000	1,793,300	6,621,438
2036	925,000	421,806	2,695,000	1,665,050	5,706,856
2037	650,000	387,913	2,800,000	1,557,250	5,395,163
2038	680,000	362,288	2,915,000	1,445,250	5,402,538
2039	710,000	329,344	2,065,000	1,299,500	4,403,844
2040	750,000	294,900	2,170,000	1,196,250	4,411,150
2041	780,000	258,538	2,280,000	1,087,750	4,406,288
2042	820,000	220,675	2,390,000	973,750	4,404,425
2043	860,000	180,800	2,510,000	854,250	4,405,050
2044	895,000	146,775	2,635,000	728,750	4,405,525
2045	930,000	111,375	2,770,000	597,000	4,408,375
2046	965,000	74,575	2,910,000	458,500	4,408,075
2047	910,000	36,400	3,055,000	313,000	4,314,400
2048	-	-	3,205,000	160,250	3,365,250
	$ 84,680,000	**$ 27,440,138**	**$ 93,925,000**	**$ 55,677,147**	**$ 261,722,284**

Average Annual Principal and Interest Requirement[b][c]	FY2019-2048[c]	$ 8,240,272
Maximum Annual Principal and Interest Requirement[b][c]	FY2019	$ 19,504,316

* Does not include the portion of the City's General Obligation debt that is assigned to the System and paid by System revenues. Outstanding Revenue Debt is shown net of capitalized interest generated on the System's Series 2017 Bonds which will be used to support interest payments on a portion of the System's debt service annually through 10/15/2021.

[a] Debt service on the Bonds is shown net of capitalized interest through 10/15/2021.

[b] Principal paid April 15 of each year.

[c] Excludes the FY2018 debt service payments as the principal was paid on April 15, 2018.

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 LP&L Capital Improvement Plan ("the CIP") - see Table 6 herein. Currently, the LP&L CIP is largely debt financed through FY 2019-20 due to the large transmission projects/upgrades required to integrate with ERCOT. Historically, the System's financial model incorporated the objective of funding 35 percent of the CIP with cash and 65 percent with debt. Due to the significant increase of transmission assets related to the ERCOT interconnection, the percent of cash funded capital has decreased to 27.3 percent and is expected to stay at this level until FY2023-24. The blend of financing for capital improvements is reviewed annually to determine if any adjustments are necessary.

TABLE 8 - CONDENSED STATEMENT OF OPERATIONS[a]

	Fiscal Year Ended September 30				
	2017	2016	2015	2014	2013
REVENUE					
Operating Revenues					
Charges for Services	$ 243,928,151	$ 222,951,614	$ 221,215,135	$ 227,244,632	$ 212,656,108
Non-Operating					
Income/(Expense)	(3,611,334)	(5,189,167)	(5,170,344)	(3,310,849)	(4,495,451)
Gross Revenues	240,316,817	217,762,447	216,044,791	223,933,783	208,160,657
OPERATING EXPENSE					
Personnel Services	$ 20,179,531	$ 19,858,599	$ 18,412,110	$ 20,958,925	$ 20,319,811
Supplies	1,104,042	993,070	1,080,314	1,278,463	1,690,974
Maintenance	2,434,484	2,103,059	2,842,372	2,644,851	3,591,927
Purchase of fuel and power	162,336,407	145,856,186	147,496,656	153,230,408	136,562,687
Other Charges	9,145,848	7,569,610	7,143,694	7,908,213	7,450,505
Total Operating Expenses	195,200,312	176,380,524	176,975,146	186,020,860	169,615,904
Net Revenues[b]	**$ 45,116,505**	**$ 41,381,923**	**$ 39,069,645**	**$ 37,912,923**	**$ 38,544,753**
Electric Connections	105,788	104,103	103,475	102,079	101,165

---

[a] See "THE SYSTEM - Financial Model, Base Rate Adjustments and Purchased Power Recovery Factor" for a discussion of expected changes to LP&L's revenues and expenses.
[b] The statement of operations shown above represents amounts legally available for the payment of LP&L debt service, but does not take into account all transfers from LP&L to the City's General Fund.

TABLE 9 - COVERAGE AND FUND BALANCES*

Electric Light and Power System Revenue Available, September 30, 2017	$	45,116,505	
Electric Light and Power System Revenue Bonds Outstanding, August 1, 2018[a]	$	167,090,000	
Average Annual Principal and Interest Requirements, FY2019-FY2048	$	8,240,272	
Coverage by Net Revenues, Fiscal Year Ended September 30, 2017		5.48	x
Maximum Principal and Interest Requirements, FY 2018-19	$	19,504,316	
Coverage by Net Revenues, Fiscal Year Ended September 30, 2017	$	2.31	x
Bond Fund Balance as of May 31, 2018	$	9,908,192	
Reserve Portion of Bond Fund Balance [b] as of May 31, 2018	$	8,819,942	

---

* Does not include the portion of the City's General Obligation debt that is assigned to the System and paid by System revenues in a principal amount of $28,597,648 as of April 1, 2018. Debt service is shown net of capitalized interest generated on the System's Series 2017 Bonds which will be used to support interest payments on a portion of the System's debt service annually through 10/15/2021.
[a] Excludes principal paid on April 15, 2018. Includes the Bonds.
[b] For LP&L's revenue bonds, the City covenants to maintain, in the Reserve Portion of the Bond Fund, a Required Reserve of not less than the Average Annual Debt Service requirements of all Bonds Similarly Secured, which will be calculated each fiscal year and upon the issuance of additional debt.

TABLE 10 - THE CITY'S EQUITY IN THE ELECTRIC LIGHT & POWER SYSTEM

	Fiscal Year Ended September 30				
	2017	2016	2015	2014	2013
Value of the System					
Property, plant and equipment	$ 454,272,622	$ 450,910,467	$ 426,065,935	$ 410,022,644	$ 394,370,241
Less: Allowance for depreciation	(241,006,745)	(233,826,922)	(216,680,005)	(198,444,436)	(181,924,750)
	213,265,877	217,083,545	209,385,930	211,578,208	212,445,491
Construction in progress	7,849,483	5,159,705	10,841,387	16,074,101	18,804,138
Net fixed asset value	221,115,360	222,243,250	220,227,317	227,652,309	231,249,629
Capital projects restricted investments	36,640,314	23,013,674	23,952,746	15,597,846	4,608,084
Goodwill	796,812	1,062,510	1,328,208	1,593,906	1,859,604
Prepaid expenses	1,611,109	1,744,443	1,877,776	2,011,109	2,144,443
Deferred charge on refunding	1,234,719	1,534,143	1,440,177	812,733	777,990
Deferred outflows from pensions	6,929,607	8,488,807	3,289,751	-	-
Current assets	102,917,610	97,339,519	95,254,290	92,327,159	83,608,126
Less: Current liabilities (excluding bonds/interest)	(29,134,783)	(27,689,514)	(27,900,569)	(28,468,018)	(23,030,927)
Value of the system	342,110,748	327,736,832	319,469,696	311,527,044	301,216,949
Long-Term Obligations					
Bonds outstanding [(a)]	128,482,725	126,276,303	133,250,185	133,800,326	129,439,665
Leases outstanding	-	-	-	-	22,206
Less: Bond Fund	(10,354,109)	(10,392,293)	(10,254,840)	(9,822,504)	(10,284,261) [(b)]
	118,128,616	115,884,010	122,995,345	123,977,822	119,177,610
Plus:					
Accrued revenue bond interest	1,514,556	1,767,398	1,819,672	1,738,112	1,661,760
Accrued vacation and sick leave	879,422	938,188	1,062,691	1,459,521	1,693,696
Post employment benefits	9,373,761	8,738,911	7,362,279	6,176,464	4,981,673
Net pension obligation	23,015,914	22,874,630	16,721,796	2,182,421	2,165,907
Deferred inflow from pensions	605,547	906,160	795,331	-	-
Net outstanding long-term obligations	153,517,816	151,109,297	150,757,114	135,534,340	129,680,646
City's equity in the system	**$ 188,592,932**	**$ 176,627,535**	**$ 168,712,582**	**$ 175,992,704**	**$ 171,536,303**
Percentage City's equity in system	55.13%	53.89%	52.81%	56.49%	56.95%

[(a)] Bonds outstanding include principal and premium associated with the outstanding System revenue bonds and the general obligation debt issued by the City to fund improvements in the System. As a matter of policy and after making the required transfers to the Bond Fund for the benefit of the Bonds Similarly Secured and satisfying the other covenants and conditions contained in the ordinances authorizing the issuance of the Bonds Similarly Secured, available revenues of the System are applied to the City to provide debt service on the general obligation debt issued by the City to fund improvements in the System. Such self-supporting general obligation debt comprised a principal amount of $28,597,648 of the City's $951,305,000 in General Obligation Debt Outstanding as of April 1, 2018.

[(b)] The Interest & Sinking Fund & Reserve Fund total differs from the System's 2013 Audit. Net investment in capital assets was included in the figure in the audit.

TABLE 11 - MONTHLY ELECTRIC RATES

Electric rates in the City are approved by the Electric Utility Board and then set by an ordinance adopted by the City Council.

Approximately 54.7% of LP&L customers are billed under the Standard Residential rate schedule shown below with another 31.3% qualifying for a discounted winter residential rate by having whole house electric heating. Approximately 6.83% of LP&L customers are billed under the Small General Service rate schedule shown below. Other rate schedules are available for customers including School, Secondary General Service, Primary General Service, Municipal, Street Light, Church and Small Municipal/School.

Residential			
Service Availability Charge	$	8.07	per month

All kilowatt hours ("kWh") per month @ $0.03381 per kWh used during summer months.
All kWh per month @ $0.05252 per kWh used during summer months (Space Heating Discount Residential Rate)

All kWh per month @ $0.03381 per kWh used during winter months (Standard Residential Rate)
All kWh per month @ $0.01528 per kWh used during winter months (Space Heating Discount Residential Rate)

Summer Months: June - September
Winter Months: October - May

Plus: Purchased/Power Cost Recovery Factor [(a)]

Small General Service			
Service Availability Charge	$	13.55	per month

All kWh per month @ $0.01987 per kWh used during summer months.
All kWh per month @ $0.01987 per kWh used during winter months.

Summer Months: June - September
Winter Months: October - May

Plus: Purchased/Power Cost Recovery Factor [(a)]

[(a)] **Purchased Power Recovery Factor -** The Purchased Power Recovery Factor (PPRF), provides for the recovery of all purchased power costs incurred by LP&L in serving system demand and energy requirements. The PPRF shall be reviewed and may be adjusted by the Director of Electric Utilities at a minimum of two times per year, once during the non-summer season of October through May and once during the summer season of June through September. The PPRF will have a demand (PPRF-D) and energy (PPRF-E) component or rate. The PPRF rates shall be established with the intention of matching PPRF revenues with actual purchased power costs over the course of a fiscal year, giving consideration to seasonal fluctuations in load and in purchased power prices. The PPRF may be adjusted more frequently if any over or under recovery exceeds the maximum variance as defined below.

For a particular customer class, the PPRF-E shall be adjusted by the following voltage level factors:
Primary Voltage: 1.0409
Secondary Voltage: 1.06340

On a monthly basis, LP&L shall track actual revenues collected from the PPRF and compare these revenues to actual total purchased power costs incurred. The cumulative balance representing the difference between total PPRF revenues collected less total purchased power costs incurred over the period shall be reported to the LPL&L Board on a monthly basis.

A PPRF balance account has been established with a cap equal to five percent of total annual budgeted or forecasted purchased power costs to manage the monthly over/under collection of, or differences in, the monthly PPRF revenues and monthly purchased power costs. If at any time, the reported cumulative balance of the difference between total PPRF revenues collected and purchased power costs is greater than the PPRF balancing account cap, an adjustment may be made to the PPRF rates with the intention of refunding the over recovery amount. In addition, if at any time the reported cumulative balance of the difference between total PPRF revenues collected and purchased power costs is approaching or less than zero, an adjustment may be made to the PPRF rates with the intention of replenishing the PPRF stabilization fund. See "THE SYSTEM – Financial Model, Base Rate Adjustments and Purchased Power Recovery Factor – Purchased Power Recover Factor" for more information regarding the PPRF and proposed changes to the LP&L Rate Tariff and balancing account cap.

All mid-season adjustments to the PPRF shall be approved by the Electric Utility Board.

Purchased Power Cost Recovery Factor Rev: 10/01/2017

TABLE 12 - CURRENT INVESTMENTS

As of March, 31, 2018, the City's investable funds were invested in the following categories:

Type	Par Value	Book Value: Value	Book Value: % of Total Book Value	Estimated Market Value[a]: Value	Estimated Market Value[a]: % of Total Market Value
United States Agency Obligations	$ 67,475,776	$ 67,489,328	14.46%	$ 66,593,273	14.32%
Money Market Mutual Funds[b]	205,247	205,248	0.04%	205,248	0.04%
Municipal Bonds	45,560,000	45,817,976	9.82%	45,002,598	9.68%
Bank Accounts	3,172,666	3,172,666	0.68%	3,172,666	0.68%
Local Government Investment Pools[c]	350,025,156	350,025,156	75.00%	350,025,156	75.27%
	$ 466,438,845	**$ 466,710,374**	**100.00%**	**$ 464,998,941**	**100.00%**

[a] Market prices are obtained from Wells Fargo Brokerage. No funds are invested in mortgage backed securities. The City holds all investments to maturity which minimizes the risk of market price volatility.
[b] Money Market Funds are held at The Bank of New York Mellon Trust Company, N.A.
[c] Local government investment pools consist of entities whoses investment objectives are preservation and safety of principal, liquidity, and yield. The pool seeks to maintain a $1.00 net asset value per share as required by the PFIA.

[Remainder of page left intentionally blank]

APPENDIX B

EXCERPTS FROM CITY'S ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED SEPTEMBER 30, 2017

[THIS PAGE INTENTIONALLY LEFT BLANK]

City of Lubbock TEXAS

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

February 7, 2018

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

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

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

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

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

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

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

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

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

CITY OVERVIEW

Description of the City

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

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

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

[1] City of Lubbock GIS Department.

City Services

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

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

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

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

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

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

On September 24, 2015 LP&L announced it's the intent to join the Electric Reliability Council of Texas (ERCOT). Shortly after the announcement, LP&L initiated the process to formally join the Texas intrastate electric grid, and in February 2016 the PUC established Project No. 45633, Project to Identify Issues to Lubbock Power & Light's Proposal to become part of the Electric Reliability Council of Texas (the "Project"). In March 2016, LP&L submitted a transmission integration study into the Project at the request of the PUC, and ERCOT submitted its transmission integration study into the Project in June 2016. LP&L's transmission integration study was conducted by expert engineering consultants who worked in close coordination with LP&L staff. At the June 2016 PUC Open Meeting, the PUC identified the need for joint cost-benefit studies by SPP and ERCOT followed by a public interest determination docket and a Certificate of Convenience and Necessity ("CCN") case. In addition to the cost-benefit studies conducted by SPP and ERCOT, LP&L performed its own cost-benefit analysis, looking closely at every technical component of the future transition. On June 30, 2017 and July 7, 2017 ERCOT and SPP respectively filed their studies with the PUC and on September 1, 2017 LP&L filed its study and submitted its formal application to join ERCOT.

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

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

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

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

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

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

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

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

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

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

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

Wastewater Utility: Wastewater collection and treatment is provided within the city limits to residential, commercial, and industrial customers. As of December 31, 2016, the collection system consisted of approximately 1,152 miles of sanitary sewer lines and 34 lift stations. The wastewater treatment plant has a permitted capacity of 31.5 million gallons per day and an average utilization of approximately 19 million gallons per day. The peak utilization of the wastewater treatment plant is 25 million gallons per day. The treated wastewater is disposed of or reused in various ways. In 2017, approximately 52 percent of the wastewater was used to irrigate crops at the Lubbock Land Application Site and at the Hancock Land Application Site. In addition, Xcel Energy used approximately 7 percent of the treated wastewater and 41 percent was discharged into the North Fork of the Double Mountain Fork of the Brazos River. Dewatered solids generated during the wastewater treatment process are hauled and disposed of at the City's regional solid waste landfill in Abernathy, Texas.

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

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

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

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

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

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

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

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

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

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

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

Cultural and Recreation Activities: The City provides cultural and recreation services through 4 libraries and 81 parks with 60 playgrounds. Other recreational facilities include 4 swimming pools, 61 tennis courts, 53 baseball and softball fields, 50 soccer fields, 3 disc golf courses, a cultural arts center, 5 community centers, and 5 older adult activity centers. To further enhance quality of life and to provide support to tourism, the City operates the Memorial Civic Center, the City Bank Coliseum and Auditorium, the Buddy Holly Center, the Wells Fargo Amphitheatre, and the Silent Wings Museum.

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

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

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

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

Other major street improvement projects under construction include the following:

- The continuation of the City-wide street maintenance program. The City Street Maintenance Program has a goal of achieving an average Pavement Condition Rating for the entire city of 80. The current rating is 71 and the program is funded for FY 2018.

- The widening of Erskine Avenue from Quaker/Loop 289 interchange east to Indiana Avenue began in early 2017. This project will enhance the increased mobility of the Northwest Passage Projects.

- The design of 98th Street from Upland Avenue to Milwaukee Avenue began in December 2016. Construction is anticipated to begin in early 2018 with a completion in late 2018.

- The design of Phases 3 and 4 of 34th Street from Slide Avenue to Quaker Avenue and Avenue Q to Interstate 27 are underway and anticipated to be completed in early 2018.

Annual Budget Process

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

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

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

ECONOMIC CONDITION AND OUTLOOK

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

Local Economy

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

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

The Southern High Plains District, comprised of 16 counties surrounding Lubbock, is one of the most productive agricultural areas in the United States. In 2017, 24.2 percent of the nation's upland cotton crop and 44.2 percent of the state's upland cotton crop were planted by farmers in the Southern High Plains District. The Southern High Plains production was 3,215,000 bales, down 4.3 percent from the 3,360,000 bales in 2016.[3]

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

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

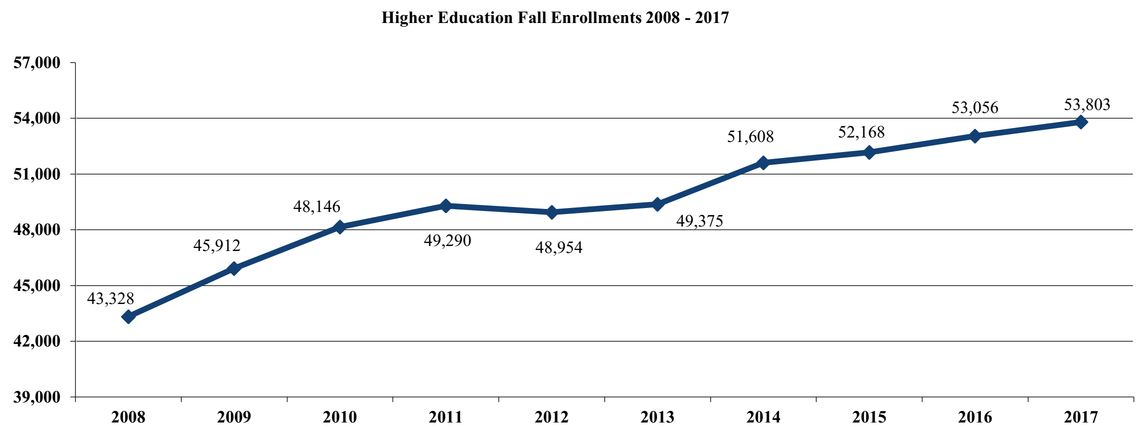
---

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

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

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

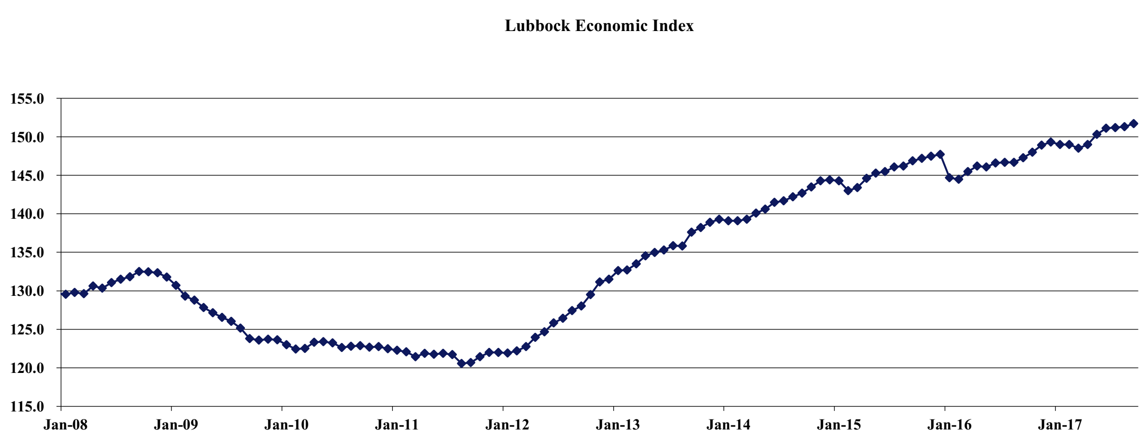
of 40,000 students by 2020. The availability of graduates in the City is an added advantage to local industries as the universities and colleges continue to produce a ready source of qualified labor.



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

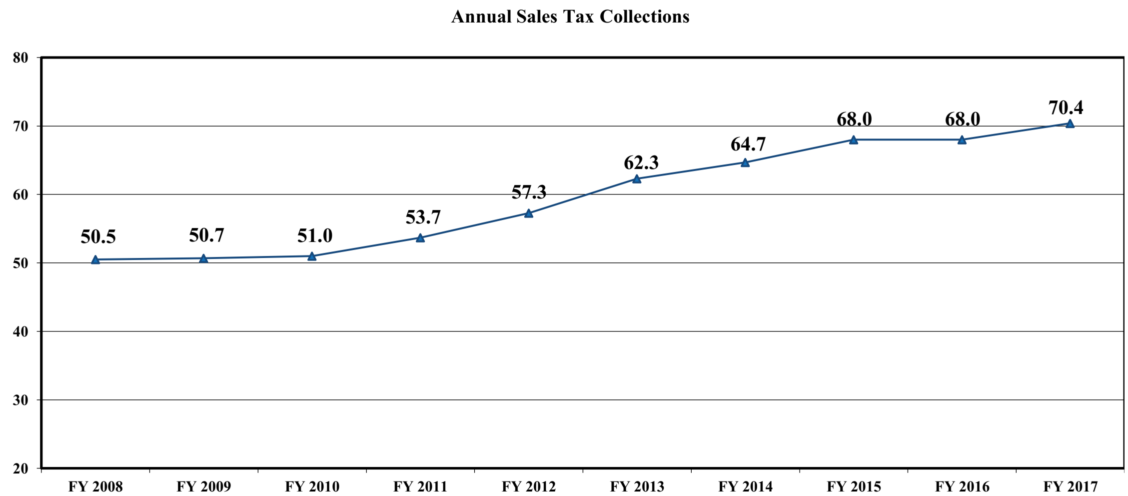
Lubbock Economic Index: The Lubbock Economic Index is designed to represent the general condition of the Lubbock economy by tracking local economic indicators. The base year for the index was 1996, when the index was set at 100. The preliminary economic index received for September 2017 was 151.7, which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

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

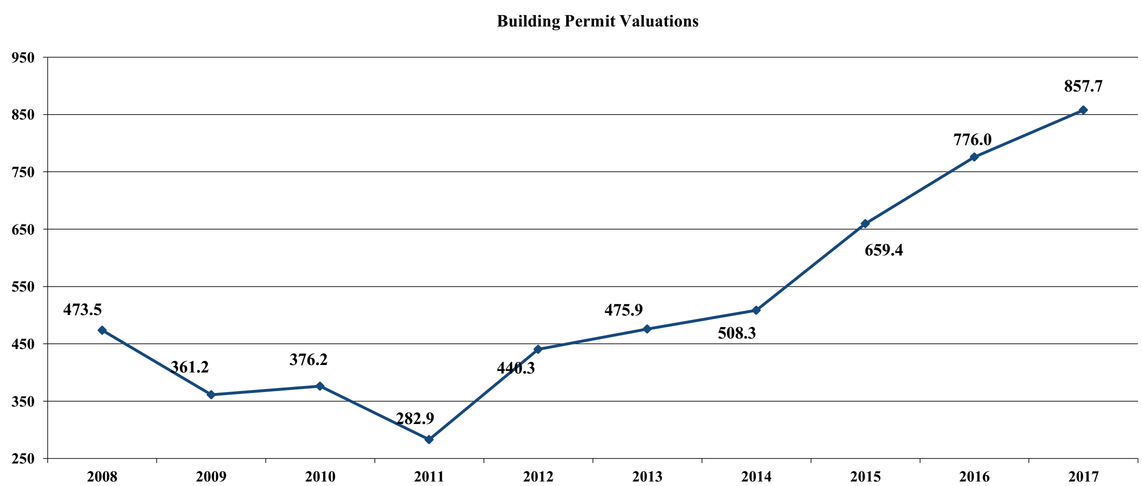


[5] U.S. Census Bureau, *2015 County Business Patterns, retrieved from http://censtats.census.gov/cgi-bin/cbpnaic/cbpsect.pl (2-year delay in publication).*

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



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

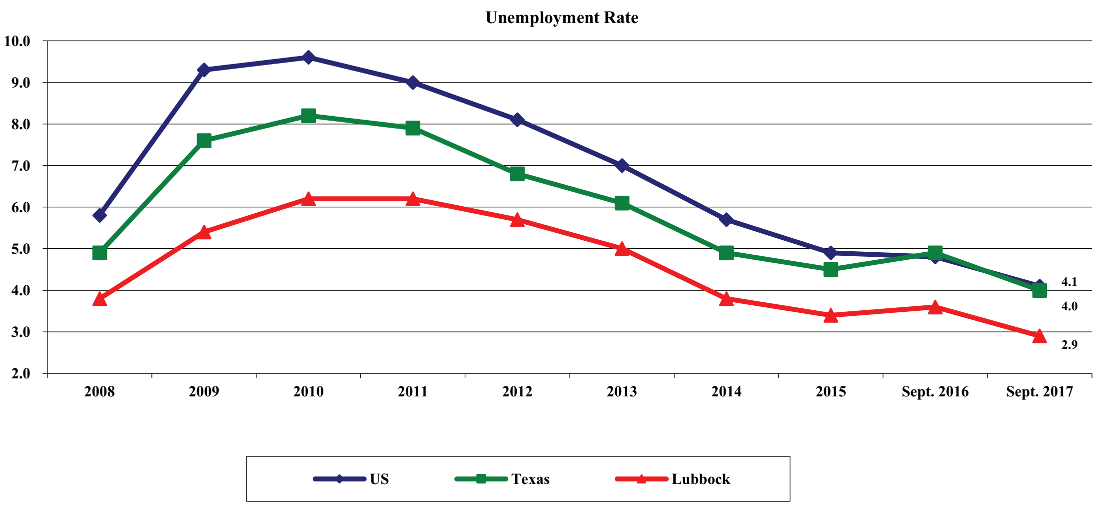


New residential permits totals issued through December decreased in 2017. The total new residential valuations were $395.7 million, 6.0 percent lower than the same time period in 2016.[6] The preliminary average home sales price for FY 2017 was $177,683, an increase of 2.1 percent over FY 2016.[7]

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

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

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



ECONOMIC DEVELOPMENT

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

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

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

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

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

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

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

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

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

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

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

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

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

FINANCIAL INFORMATION

Long-term financial planning

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

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

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

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

AWARDS AND ACKNOWLEDGEMENTS

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

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

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

Respectfully submitted,

W. Jarrett Atkinson
City Manager

D. Blu Kostelich
Chief Financial Officer

Linda Cuellar, CPA
Director of Accounting

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Lubbock

Texas

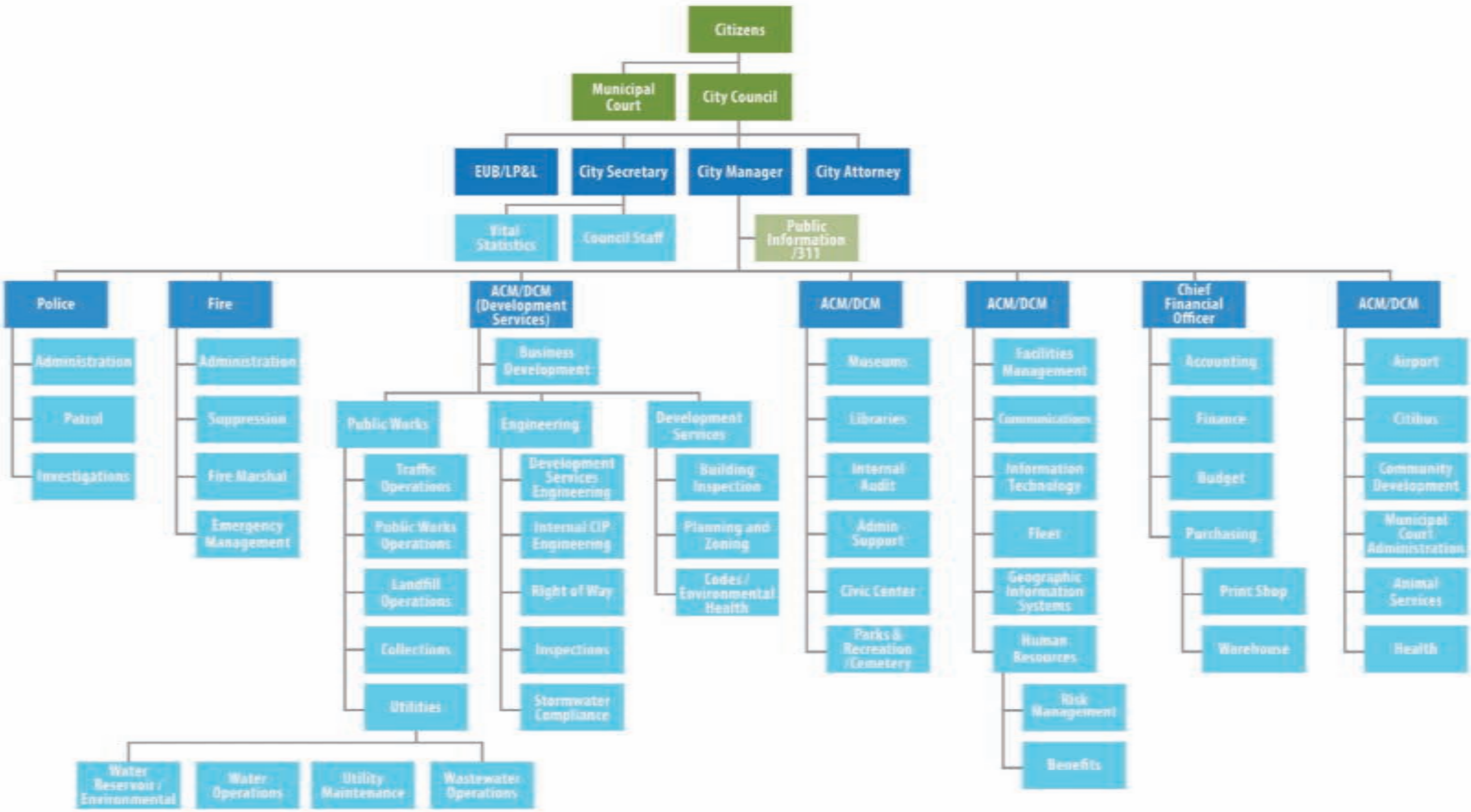
For its Comprehensive Annual Financial Report for the Fiscal Year Ended

September 30, 2016

Christopher P. Morrill

Executive Director/CEO

Organizational Chart



City of
Lubbock
TEXAS

BKD LLP
CPAs & Advisors
14241 Dallas Parkway, Suite 1100 // Dallas, TX 75254-2961
972.702.8262 // fax 972.702.0673 // bkd.com

Independent Auditor's Report

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

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

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

Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

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

BKD, LLP

Dallas, Texas
February 7, 2018

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

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

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

Financial Highlights

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

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

Overview of the Financial Statements

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

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

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

The *Statement of Activities* presents a comparison between direct expenses and program revenues for each of the City's functions or programs. Direct expenses are specifically associated with an activity and are therefore clearly identifiable with that activity. Program revenues include charges paid by the recipient of the goods or services offered by the program. Program revenues also include grants and contributions restricted to meeting the operational or capital requirements of a particular activity. Revenues not directly related to a specific activity are presented as general revenues. The comparison of direct expenses with revenues from activities identifies the extent to which each activity is self-financing, or alternatively, draws from any City generated general revenues.

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

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

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

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

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

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

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

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

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

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

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

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

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

Government-Wide Financial Analysis

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

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

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

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

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

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

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

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

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

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

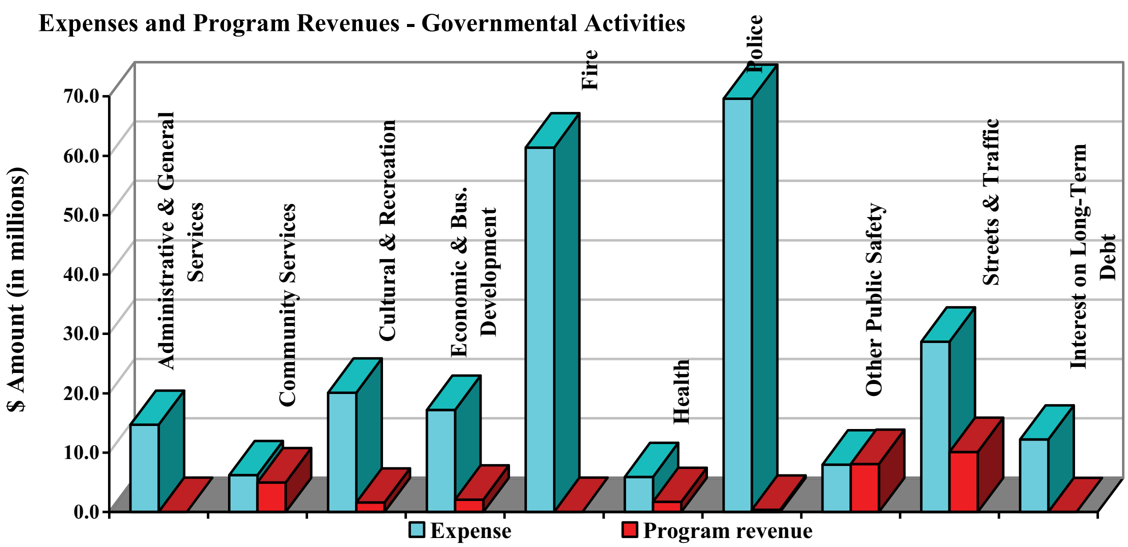
- Revenues increased $7.1 million, from $201.0 million in FY 2016 to $208.1 million in FY 2017.
  - The City experienced a $1.3 million decrease in total program revenues from FY 2016 to FY 2017. Charges for services decreased $0.1 million from FY 2016 to FY 2017 and operating grants and contributions increased $0.9 million Capital grants and contributions decreased $2.1 million from FY 2016 to FY 2017. Mowing fee revenue dropped by $0.06 million in FY 2017 lowering the charges for services. Police grants and miscellaneous grants went down by $0.2 million in FY 2017 as Community Development grant revenue increased by $0.8 million. Developers contributed $9.7 million in donated streets in FY2017, a $1.7 million decrease from FY 2016.
  - Property tax revenue increased from $80.6 million in FY 2016 to $86.3 million in FY 2017 . The property tax rate stayed flat from $0.53802 per $100 of assessed value in 2016 to $0.53802 per 100 of assessed value in 2017. Taxable assessed values increased from $14.9 billion in 2016 to $15.9 billion in 2017, as real property valuations continued to climb.
  - Sales tax revenue increased from $68.0 million in FY 2016 to $70.4 million in FY 2017. Since FY 2007, Lubbock had experienced a steady increase in sales tax revenue averaging a 4.4 percent increase annually in that time frame. In FY 2017, Lubbock experienced a 3.6 percent increase in sales tax.
  - Franchise fees dropped from $9.3 million in FY 2016 to $9.1 million in FY 2017. The decrease occurred in the franchise fees related to telecom line charges. The telecom line charge access line rates is controlled by the Public Utility Commission (PUC). In FY 2017 the access line rates were decreased .0878 percent by the PUC.

- Total expenses increased $6.0 million, from $238.1 million to $244.1 million in FY 2017.
  - Employee compensation increased due to a cost of living increase that was 2 percent and was effective as of January 1, 2017, and due to step increases in Fire and Police civil service positions. The Texas Municipal Retirement System (TMRS) contribution rate decreased slightly from 17.96 percent in FY 2016 to 17.95 percent in FY 2017 and the Lubbock Fire Pension Fund rate decreased from 21.73 percent in FY 2016 to 21.72 percent in FY 2017.
  - Community services expenses increased by $1.0 million in FY 2017 due to three new construction projects in FY 2017 including a duplex that was completed in August 2017.
  - Fire Department expenses increased $5.1 million to $61.4 million in FY 2017. The GASB 68 pension expense of the fire department increased by $4.7 million in FY 2017. The remaining increase was due to additional salary and benefit cost.
  - Police services increased $0.4 million to $69.6 million in FY 2017. The GASB 68 pension expense of the police department decreased by $1.0 million in FY 2017. Post retirement benefit adjustments and compensated absences decreased $2.1 million in FY 2017. Police salary and benefit and operating expenditures increased by $2.8 million in FY 2017.
  - Cultural and Recreation increased by $1.0 million to $20.1 million in FY 2017. Cultural and Recreation salary and benefit and maintenance expenditures increased by $1.5 million in FY 2017.

- Transfers from business-type activities during FY 2017 increased governmental activities' net position by $35.0 million. During the prior fiscal year, the transfers increased governmental activities' net position by $31.8 million. Transfers from Lubbock Power and Light to the general fund increased by $0.7 million in FY 2017. Transfers from wastewater to the general fund increased by $0.7 million in FY 2017.

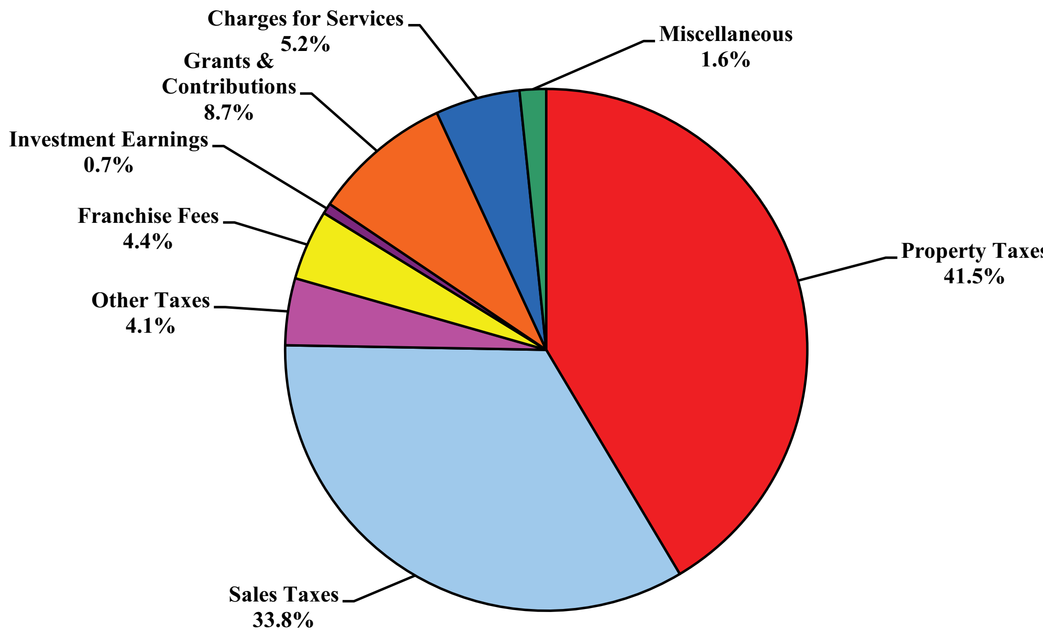
- Net transfers from business-type activities included payments in lieu of taxes, franchise fees, and indirect costs of operations for centralized services such as payroll and purchasing to governmental activities.

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



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

Revenues by Source - Governmental Activities



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

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

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

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

- Electric operating expenses were $224.8 million, an increase of $17.8 million from the prior year. The primary operating expenses contributing to the increase included a $16.5 million increase in the purchase of fuel and power. Other services and charges increased by $1.6 million which was offset by a $1.5 million decrease in depreciation and amortization. Depreciation and amortization expenses decreased in FY 2017 mainly due to two large assets that were acquired from Xcel in 2011 that fully depreciated in FY 2016. Another factor was some changes in asset lives during the Federal Energy Regulatory Commission (FERC) asset evaluation study in FY 2016, the capital asset lives were compared to industry standards and were changed to reflect those standards. FY 2017 reflected a full year's worth of depreciation based on the new useful lives.

- Expenses in the Water Fund were $59.2 million in FY 2017, down $2.7 million from FY 2016. Other services and charges decreased by $1.8 million in FY 2017. A large increase in other services and charges of $3.9 million in FY 2016 was caused by repairs on a Canadian River Municipal Water Pipeline that the City of Lubbock cash funded. Personnel cost decreased by $0.3 million in FY 2017 to $9.9 million. Employees received a 2 percent compensation adjustment in January 2017. Depreciation expense increased by $0.2 million in FY 2017 to $16.9 million.

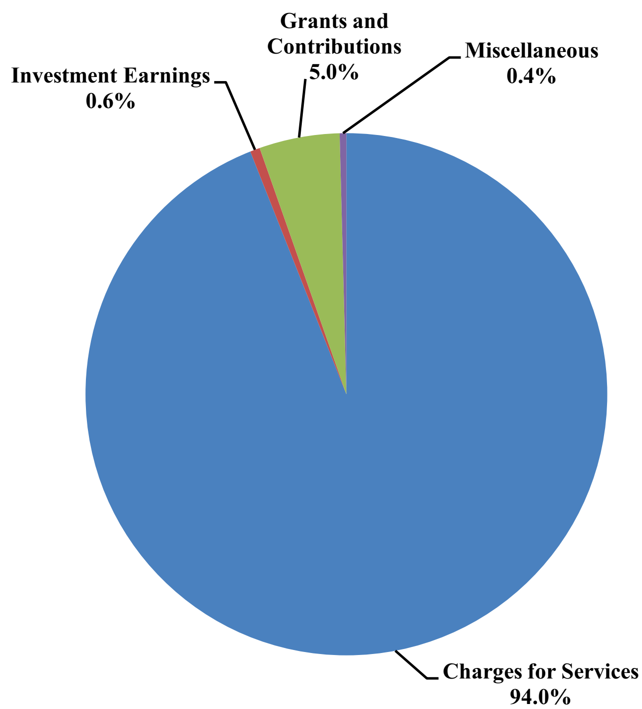
- Expenses in the Wastewater Fund stayed flat in FY 2017 at $25.6 million. Interest expense in FY 2017 decreased by $0.6 million. Personnel cost decreased by $0.1 million in FY 2017. The decrease was offset by a $0.6 million increase in depreciation in FY 2017.

- Expenses in the Storm Water Fund were $11.9 million in FY 2017, an increase of $0.4 million from the prior year. Personnel cost increased by $0.2 million in FY 2017 to $2.3 million. Other services and charges increased by $0.1 million in FY 2017. This was caused by a $0.2 million increase in expenses related to the Storm Water master plan.

- Expenses for transit, airport, civic centers, cemetery, and Lake Alan Henry were $35.5 million, a $.9 million increase from FY 2016. Transit Fund expenses increased by $0.6 million in FY 2017 to $13.3 million. Transit personnel cost increased by $0.5 million in FY 2017. Airport expenses increased by $0.9 million in FY 2017 to $16.7 million. Airport other services and charges increased by $1.2 million in FY 2017. A study analyzing existing conditions and recommendations for improvements regarding rental car operations at the airport made up $0.9 million of the increase. Personnel cost and depreciation both dropped by $0.1 million in FY 2017. Civic centers expenses decreased by $0.6 million in FY 2017. Civic centers other services and charges dropped by $0.4 million in FY 2017. Maintenance work being done in the Civic Center renovation project slowed in FY 2017 causing the reduction.

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

Revenues by Source – Business-type Activities



Financial Analysis of the City's Funds

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

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

The unassigned fund balance serves as a useful measure of the City's resources available for spending at the end of the fiscal year. In FY 2017 the General Fund had $37.5 million unassigned fund balance compared to $35.6 million unassigned fund balance in FY 2016. This is 24.7 percent of the ending governmental fund balance, compared to 22.4 percent of the ending governmental fund balance, at the end of the prior fiscal year. As a measure of the General Fund's liquidity, it is useful to compare both the unassigned fund balance and total fund balance to total fund revenues. Unassigned fund balance represented 27.1 percent of total General Fund revenues compared to 26.2 percent of total General Fund revenue in the prior year. Total fund balance represented 28.6 percent of total General Fund revenues compared to 26.3 percent of total General Fund revenue in the prior year.

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

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

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

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

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

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

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

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

General Fund Budgetary Highlights

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

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

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

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

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

Capital Assets and Debt Administration

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

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

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

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

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

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

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

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

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

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

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

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

- $35 million Tax and Waterworks System Surplus Revenue Certificates of Obligation, Series 2017 - These certificates were issued for the purpose of paying contractual obligations to be incurred for various public improvements and renovations including: i) construction, improvements, renovations, relocations and extensions to the City's storm water facilities and infrastructure, including the Northwest Lubbock Drainage Improvements Project (the "Project"); and (ii) payment of professional services of attorneys, financial advisors, engineers and other professionals in connection with the Project and the issuance of the Certificates. The proceeds of the debt are recorded in the Stormwater Capital Projects Fund.

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

- $17.7 million Electric Light and Power System Revenue System Bonds, Series 2017 - These bonds will be used for the purpose of 1) paying contractual obligations to be incurred for the purposes of acquiring, purchasing, constructing, improving, renovating, enlarging, and/or equipping property, buildings, structures, facilities, and/or related infrastructure for the electric system, 2) funding capitalized interest, and 3) paying the costs associated with the issuance of the Bonds.

- $18.2 million Tax Note, Series 2017 - The proceeds were used to i) contractual obligations incurred or to be incurred for the purchase of the Property, consisting of: materials, supplies, equipment and machinery for the City's Animal Services, Building Inspection, Citibus, Environmental Health, Facilities Management, Fire, Fleet, Information Technology, Library, Municipal Court, Park Maintenance, Police, Public Works Streets, Radio Shop, Solid Waste Management, Storm Water Management, Street Drainage Engineering, Traffic Operations, Vector Control and Wastewater departments; and (ii) paying the costs associated with the issuance of the Bonds.

- $36.7 million General Obligation Refunding, Series 2016A - The proceeds were used to refund a portion of the City's outstanding indebtedness for the purpose of achieving debt service savings. The bonds refunded $39.6 million in outstanding debt, which resulted in a decrease of $6.6 million in total debt service requirements.

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

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

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

- In September 2017, the average unemployment rate for the Lubbock area was 2.9 percent, down from the rate of 3.6 percent in September of the previous year. The rate compares favorably to the State's unemployment rate of 4.0 percent and the national rate of 4.1 percent for September 2017.

- Taxable retail sales tax was $70.4 million in FY 2017 compared to $68.0 million in FY 2016.

- The total number of new residential permits through September 2017 increased 40.3 percent from 2016 levels, and valuation amounts were $330.8 million which is 6.9 percent higher than the same time period in 2016.

- Hotel occupancy tax receipts increased to $7.0 million in FY 2017 compared to $6.9 million in FY 2016.

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

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

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

- Sales tax revenues in FY 2017 are expected to increase 2.3 percent compared to the FY 2017 budget, based on projections by InghamEcon, LLC.

- Payments in lieu of franchise fees are expected to increase 2.01 percent. Budgeting for the payments in lieu of franchise fees and franchise fees changed in FY 2018. Previously the revenue was split 60 percent General Fund and 40 percent to Gateway Streets special revenue fund. In FY 2018, 100 percent of the payment in lieu of franchise fees and franchise fees will be recognized as revenue to the General Fund and 40 percent will be transferred to the Gateway Streets special revenue fund. Franchise fee payments are based on 5.0 percent of metered revenues for LP&L and 5.0 percent of gross revenues for all other municipal utilities. Payments in lieu of property taxes increased 2.9 percent or $.28 million, due to higher revenues for Lubbock Power and Light.

- Fees for services are expected to increase by $22.7 million in FY 2018. This is due to Solid Waste revenues now being recorded in the General Fund. The Solid Waste operations were moved to the General Fund and will no longer be treated as an Enterprise fund.

- Compensation costs are expected to increase 6.2 percent and $5.7 million in FY 2018. Increases in Police and Fire compensation total $4.3 million or 6.4 percent. Positions in the General Fund increased by 131, with the addition of Solid Waste accounting for 109 of the 131 positions. Twenty additional positions were added to critical areas in the General Fund to address the needs of the City.

- Health insurance is projected to decrease $1.5 million and 9.3 percent due to plan changes. The cost to the departments decreased from $873.26 to $781.27 per employee per month.

- Scheduled charges for information technology will increase by $1.5 million or 27.4 percent due to increases in the cost of software maintenance contracts, hardware upgrades, and cash funded computer replacement costs. All computer hardware will be cash funded in FY 2018.

- The Vehicle maintenance cost is expected to increase General Fund expenditures by $0.6 million. This is due to expired warranties on several pieces of heavy equipment at the landfill.

- The Wastewater Fund volume rates will increase 17 percent from $3.17 to $3.71 in FY 2018. This was a planned rate increase for FY 2018. The Water rates include a rate structure change for residential customers. The customer's average winter consumption will no longer be used, instead increasing unit rates will be fixed to a defined level of consumption for water users. This rate structure change includes a $2.00 increase to the base rate for water. Revenues are expected to increase $9.5 million, or 7.7 percent due to changes to both the water and wastewater rates.

- The U.S. Energy Information Administration (EIA) expects the Henry Hub natural gas spot price to average $3.10 per MMBtu in calendar year 2018 , compared with $3.01 per MMBtu in calendar year 2017, due to the growing natural gas consumption and natural gas exports.

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.

Basic Financial Section

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

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

See accompanying Notes to Basic Financial Statements

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

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

General revenues:
Property taxes
Sales taxes
Occupancy taxes
Other taxes
Franchise taxes
Investment earnings
Miscellaneous
Transfers, net
Total general revenues and transfers
Change in net position
Net position - beginning
Prior period adjustment
Net position - ending

See accompanying Notes to Basic Financial Statements

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

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

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

See accompanying Notes to Basic Financial Statements

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

Total fund balance - governmental funds	$ 152,070,904
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	422,376,474
Internal service funds (ISF's) are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The portion of the assets and liabilities of the ISF's primarily serving governmental funds are included in governmental activities in the Statement of Net Position as follows:	
Net Position	2,747,395
General obligation bonds	10,965,687
Net book value of capital assets	(9,042,919)
Capital leases payable	1,049,949
Compensated absences	903,602
Post employment benefits	1,743,575
Net pension Liability	3,627,187
Deferred Inflows of Pensions	93,784
Deferred Outflows of Pensions	(1,095,611)
Amounts due from business-type ISF's for amounts undercharged	4,778,416
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities are as follows:	
General obligation bonds	(328,974,099)
Capital leases payable	(15,614,548)
Compensated absences	(29,909,581)
Post employment benefits	(51,050,854)
Net pension liability	(169,322,507)
Accrued interest on general obligation bonds	(1,783,822)
Bond premiums and deferred charges on refunding are recognized as an other financing source in the fund statements. In the government wide statements premiums and deferred charges on refunding are amortized over the life of the bonds. Unamortized balances as of fiscal year end equal premiums $30,066,071 and deferred charges on refunding $5,773,406.	(24,292,665)
Deferred Inflows of Pensions	(3,363,930)
Deferred Outflows of Pensions	58,006,338
Revenue earned but unavailable in the funds is deferred.	2,385,667
Net Position of governmental activities	$ 26,298,442

See accompanying Notes to Basic Financial Statements.

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

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

See accompaning Notes to Basic Financial Statements

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

Net change in fund balances - total governmental funds	$	(6,880,880)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays of $33,945,200 exceeded depreciation of $32,329,751 in the current period.		1,615,449
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. This is the amount by which proceeds of $33,336,596 exceeded debt repayments of $23,257,138, and debt defeasance of $14,385,000.		4,305,542
Capital lease transactions provide current financial resources to governmental funds and repayment of principal is an expenditure. There were no proceeds and the amount of repayment was $8,613,987.		8,613,987
Bond premiums are recognized as an other financing source in the governmental funds, but are considered bonds and notes payable on the Statement of Net Position. Premiums are amortized over the life of the bonds. This is the amount by which bond premium issued of $2,560,232 exceeded deferred refunding charges of $360,470 and amortization of $2,878,500.		678,738
Estimated long-term liabilities, excluding internal service funds, are recognized as expenses in the Statement of Activities as incurred, but are recognized when current financial resources are used in the governmental funds.		
Compensated absences		(1,048,601)
Post retirement benefits		(3,317,532)
Net pension liability		(13,755,052)
Environmental remediation		118,146
Property taxes levied and court fines and fees earned, but not available, are deferred in the governmental funds, but are recognized when earned (net of estimated uncollectibles) in the Statement of Activities. This amount is the net change in deferred property taxes and court fines and fees for the year.		337,958
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.		(1,675,605)
Accrued interest is recognized as expenses in the Statement of Activities as incurred, but is recognized when current financial resources are used in the governmental funds. This amount is the net change in the accrued interest this year.		195,619
Capital assets transactions include $10,014,986 developer donated streets less $97,356 capital asset transfers in from business-type activities and less $56,585 disposition of assets and use of property.		9,861,049
Capital lease revenue earned, but not available, is deferred in the governmental funds, but recognized in the Statement of Activities. This is the change in capital lease unavailable revenue for the year.		(47,496)
Change in net position of governmental activities	$	(998,678)

See accompanying Notes to Basic Financial Statements.

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

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

See accompanying Notes to Basic Financial Statements

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

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

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

See accompanying Notes to Basic Financial Statements

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

City of
Lubbock
TEXAS

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

Total net position - proprietary funds	$ 862,803,209
Amounts reported for business-type activities in the Statement of Net Position are different because:	
Internal service funds (ISF's) are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The portion of assets and liabilities of the ISF's primarily serving enterprise funds are included in business-type activities in the Statement of Net Position as follows:	
Net position of business-type ISF's	12,306,251
Amounts due to governmental ISF's for amounts overcharged	(4,778,416)
Net position of business-type activities	$ 870,331,044

See accompanying Notes to Basic Financial Statements.

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

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

See accompanying Notes to Basic Financial Statements.

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

City of Lubbock
TEXAS

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

Net change in fund net position - total enterprise funds	$ 55,630,858
Amounts reported for business-type activities in the statement of activities are different because:	
Internal service funds (ISF's) are used by management to charge the costs of certain activities such as fleet services, central warehousing activities, management information activities, etc. to individual funds. The net revenue (expense) of certain ISF's is reported with business-type activities.	(719,721)
Change in net position of business-type activities	$ 54,911,137

See accompanying Notes to Basic Financial Statements.

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

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

See accompanying Notes to Basic Financial Statements.

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

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The more significant accounting policies are described below.

A. REPORTING ENTITY

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

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

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

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

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

BLENDED COMPONENT UNIT

West Texas Municipal Power Agency (WTMPA) is a legally separate municipal corporation, a political subdivision of Texas, and body politic and corporate, formed in 1983, governed by an eight-member Board of Directors. The board consists of two directors from each participating city. One member is elected as the president who presides over monthly meetings. Directors serve without compensation. WTMPA has no employees and instead contracts for services to meet its general operating needs. WTMPA may engage in the business of generation, transmission, sale, and exchange of electric energy to the four participating public entities: Lubbock, Tulia, Brownfield, and Floydada. WTMPA may also participate in power pooling and power exchange agreements with other entities. WTMPA provides electricity to its four member cities with the City having a 95.4 percent interest in its operations. Each member city appoints two members to the WTMPA board; however an affirmative vote of the "majority in interest" is required to approve the operating budget, capital projects, debt issuance, and any amendments to WTMPA rules and regulations. The "majority in interest" relates to the following items: 1) WTMPA's operating budget or any budget amendment(s); 2) capital projects; 3) certain energy sales or sale or exchange of property with a value in excess of $20,000; and 4) any amendments to WTMPA rules and regulations requiring a quorum of seven voting board members, an affirmative vote of six voting board members, and an affirmative vote of the "majority in interest". The "majority in interest" weighted vote is assigned according to kilowatt purchases by each city during the previous year. Lubbock has a 95.4 percent "majority in interest" vote since it accounts for 95.4 percent of WTMPA's electrical sales. WTMPA provides services almost exclusively to the City and is therefore presented as a blended enterprise fund. Separate audited financial statements may be obtained through the City.

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

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

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

DISCRETELY PRESENTED COMPONENT UNITS

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

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

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

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

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

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

RELATED ORGANIZATIONS

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

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

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

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

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

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.

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

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

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

Fund Financial Statements

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

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

Fund Accounting

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

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

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

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

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

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

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

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

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

The City also reports the following non-major funds:

Governmental Funds

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

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

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

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

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

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

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

D. BUDGETARY ACCOUNTING

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

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

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

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

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

E. ENCUMBRANCES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

G. REVENUES, EXPENSES AND EXPENDITURES

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

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

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

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

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

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

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

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

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

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

H. PENSIONS

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

I. NEW PRONOUNCEMENTS

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

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

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

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

NOTE II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. RESTRICTED NET POSITION

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

B. GENERAL FUND BUDGET COMPARISON

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

NOTE III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS

A. DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

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

Investment in State Investment Pools

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

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

LOGIC was established pursuant to an Interlocal Agreement, which was subsequently amended and is now entitled Participation Agreement and Trust Instrument (the "Agreement") between participating Government Entities. Participation in the Pool is limited to those eligible Government Entities which have become parties to the Agreement ("Participants"). Participants' assets in the Pool are represented by units of beneficial interest ("Units"), which are issued in discrete series (each a "Portfolio"), as authorized from time to time by the Board. Assets invested in any Portfolio will be managed separately, and segregated from, the assets of every other Portfolio. Since September 2005, J.P. Morgan Investment Management Inc. (JPMIM) has served as investment adviser to LOGIC. FirstSouthwest, a Division of Hilltop Securities (FirstSouthwest) and JPMIM serve as co-administrators to LOGIC, and FirstSouthwest provides administrative, participant support, and marketing services. JPMorgan Chase Bank N.A. provides custodial services. The investment objective and strategy of the pool is to seek preservation of principal, liquidity and current income through investment in a diversified portfolio of short-term marketable securities. The pool offers same day access to investment funds.

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

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

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

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

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

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

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

Disclosures about Fair Value of Assets and Liabilities

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

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

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

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

Recurring Measurements

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

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

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, 2017 the City had $17,826,746 of internal financing. These balances are assessed an interest charge and are repaid over time through operations and transfers.

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

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

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

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

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

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

C. PREPAID EXPENSES

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

D. GOODWILL

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

E. CAPITAL ASSETS

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

Primary Government:

Governmental Activities

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

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

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

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

Business Type Activities

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

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

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

Construction Commitments

The City has active construction projects at fiscal year end.

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

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

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

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

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

F. CAPITAL LEASES

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

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

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

G. RETIREMENT PLANS

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

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

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

Summary of significant data for each retirement plan follows:

TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)

Plan Description

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

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

Benefits Provided

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

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

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

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

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

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

Contributions

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

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

Net Pension Liability

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

Actuarial assumptions

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. Those assumptions were first used in the December 31, 2013 valuation, along with a change to Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with and adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	100.0%	

Discount rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability		**Increase (Decrease)**	
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a)-(b)**
Balance at September 30, 2016	**$ 653,584,576**	**$ 528,295,289**	**$125,289,287**
Changes for the year:			
Service cost	15,823,941	-	15,823,941
Interest	43,569,660	-	43,569,660
Difference between expected and actual experience	(116,124)	-	(116,124)
Contributions – employer	-	16,727,368	(16,727,368)
Contributions - employee	-	6,519,575	(6,519,575)
Net investment income	-	35,696,237	(35,696,237)
Benefit payments, including refunds of employee contributions	(32,040,199)	(32,040,199)	-
Administrative expense	-	(403,223)	403,223
Other changes	-	(21,725)	21,725
Net changes	$ 27,237,278	$ 26,478,033	759,245
Balance at September 30, 2017	**$680,821,854**	**$ 554,773,322**	**$126,048,532**

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 is1-percentage-point lower (5.75) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75)
City's net pension liability	$218,409,064	$126,048,532	$50,078,881

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

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

For the year ended September 30, 2017 the City recognized pension expense of $24,802,042.

At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference in expected and actual experience	$ -	$ 3,354,285
Difference in assumption changes	604,082	-
Difference between projected and actual investment earnings	24,644,073	-
Contributions subsequent to the measurement date	12,573,979	-
Total	$ 37,822,134	$ 3,354,285

$12,573,979 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability as of September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending September 30:	
2018	$ 7,163,000
2019	7,576,221
2020	7,174,814
2021	(20,165)
Total	$21,893,870

LUBBOCK FIRE PENSION FUND (LFPF)

Plan Description

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

Benefits Provided

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

A firefighter has the option to participate in a Retroactive Deferred Retirement Option Plan (RETRO DROP) which provides a lump sum benefit and a reduced annuity upon termination of employment. Firefighters must be at least 51 years of age with 21 years of service at the selected "RETRO DROP benefit calculation date" (which is prior to date of employment termination). Early RETRO DROP with benefit reductions is available at age 50 with 20 years of service for the selected "early RETRO DROP benefit calculation date." A Partial Lump Sum option is also available where a reduced monthly benefit is determined based on an elected lump sum amount such that the combined present value of the benefits under the option is actuarially equivalent to that of the normal form of the monthly benefit. Optional forms are also available at varying levels of surviving spouse benefits instead of the standard two-thirds form.

There is no provision for automatic post-retirement benefit increases. LFPF has the authority to provide, and has periodically provided for in the past, ad hoc post-retirement benefit increases. The benefit provisions of this plan are authorized by the Texas Local Fire Fighter's Retirement Act (TLFFRA). TLFFRA provides the authority and procedure to amend benefit provisions. Amending the plan requires approval of any proposed change by: a) an eligible actuary and b) a majority of the participating members of the fund.

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

Retirees and beneficiaries currently receiving benefits	289
Terminated employees entitled to but not yet receiving benefits	2
Active employees	402
Total	693

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 of payrolls. The excess of the total contribution rate over the service cost contribution is used to amortize LFPF's net pension liability, if any, and the number of years needed to amortize LFPF's net pension liability, if any is determined using a level percentage of payroll method. The costs of administering the plan are financed by LFPF.

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

Net Pension Liability

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

Actuarial assumptions

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	4.0% per year, compounded annually
Investment Rate of Return	7.75%, compounded annually

The mortality, disability, and termination decrements are assumed to be annual rates, rather than probabilities, and are adjusted for the interaction between competing decrements. There was no adjustment for the interaction between those three decrements and the retirement decrement. The 7.75 percent rate of return was set by examining the fund's rate of return history and by taking into account future expected rates of return for portfolios with similar asset allocations. The assumed 7.75 percent rate can be considered to include provision for inflation at 3.00 percent per year, although other combinations of real return, risk premium, and inflation are also accounted for by a 7.75 assumed rate. The rate of return is net of trust expenses. The same inflation component was used in the assumed rate of return on the actuarial value of assets, the assumed increases in compensation for individual members, and the other actuarial assumptions.

The valuation includes provisions for mortality improvement to 2024. The mortality table used in the valuation is updated periodically. The actuaries are not aware of any significant event that has occurred since the valuation date that would have materially changed any of the demographic assumptions selected for the valuation.

The assumed rate of return was developed using both the plan's historical rates of return and expected future rates of return. Rate of return experience studies have been performed in connection with the Plan's valuations.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Cash and Equivalents	0.00%	0.00%
Fixed Income		
a. Core Bonds	10.00%	3.00%
b. Floating Rate Debt	5.00%	3.00%
c. Private Credit and Real Estate Debt	10.00%	4.50%
Equities, Real Estate and Alternative Investments		
a. Public Equities	45.00%	7.25%
b. Private Equities	10.00%	7.25%
c. Private Equities (Real Estate)	10.00%	8.60%
d. Value Added Equity (Real Estate)	5.00%	8.60%
e. Low Volatility	5.00%	3.50%
Totals	100.00%	

The demographic assumptions were chosen based on expected future rates of retirement, mortality, disability, and termination. Mortality was taken from published studies and was updated to reflect future improvement. Retirement and salary increase rates were developed based on the Plan's own experience. Disability and termination rates were based on published rates, adjusted as necessary, to conform to the Plan's own experience. Demographic assumptions were tested in connection with the valuation.

Both economic and demographic assumptions were further tested through calculation of the Plan's aggregate experience with respect to both demographic decrements and economic assumptions.

The assumed rate of return on the actuarial value of assets was 7.75 percent per annum.

The mortality table used for the valuation was changed from (a) the Employee and Healthy Annuitant Combined Rates from the RP-2000 Mortality Table, projected to 2015 using Scale AA, with separate rates for males and females, to (b) the Employee and Healthy Annuitant Combined Rates from the RP-2000 Mortality Table, projected to 2024 using Scale AA, with separate rates for males and females. The mortality changes were made in order to recognize mortality improvement through the valuation date and provide a margin for future mortality improvement. Disability rates were changed from SOA Disability Study Table, Class 1 rates, to tabular rates. Termination rates were not changed; however, they were listed as tabular rates, rather than under their original name, Table T-1 from the Actuary's Pension Handbook.

The assumed City contribution rate was increased to 21.81 percent of compensation, the rate at which the City of Lubbock will begin contributing to the plan in 2018. The assumed City contribution rate for the 2014 valuation was 22.73 percent of compensation.

Discount rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability	**Increase (Decrease)**		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a)-(b)**
Balance at September 30, 2016	**$ 256,629,244**	**$ 172,836,186**	**$ 83,793,058**
Changes for the year:			
Service cost	6,133,418	-	6,133,418
Interest	19,752,539	-	19,752,539
Difference between expected and actual experience	1,284,558	-	1,284,558
Contributions – employer	-	6,598,900	(6,598,900)
Contributions – employee	-	3,774,706	(3,774,706)
Net investment income	-	7,668,252	(7,668,252)
Benefit payments, including refunds of employee Contributions	(15,782,381)	(15,782,381)	-
Administrative expense	-	(322,882)	322,882
Other changes	-	1,244,040	(1,244,040)
Net changes	$ 11,388,134	$ 3,180,635	$ 8,207,499
Balance at September 30, 2017	**$268,017,378**	**$ 176,016,821**	**$ 92,000,557**

Sensitivity of the net pension liability to changes in the discount rate

The following represents the net pension liability of the City, calculated using the discount rate of 7.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is is1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease in Discount Rate (6.75%)	**Discount Rate (7.75%)**	**1% Increase in Discount Rate (8.75%)**
City's net pension liability	$122,787,930	$92,000,557	$66,095,352

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued LFPF financial report. That report can be obtained by contacting the Board of Trustees, LFPF, 15 Briercroft Office Park, Lubbock, TX 79412 or at www.lubbockfirepensionfund.com.

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

For the year ended September 30, 2017, the City recognized pension expense of $16,349,934.

At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	$ 1,159,725	$ 1,307,827
Changes in actuarial assumptions	7,258,794	-
Difference between projected and actual investment earnings	21,106,610	-
Contributions subsequent to the measurement date	5,281,831	-
Total	**$ 34,806,960**	**$ 1,307,827**

$5,281,831 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability as of September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending September 30:	
2018	$ 8,380,750
2019	8,380,751
2020	5,776,834
2021	1,957,952
2022	847,419
Thereafter	2,873,596
Total	$28,217,302

H. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description

The City sponsors and administers an informal single-employer health/dental plan. Texas statute provides that retirees from a municipality with a population of 25,000 or more and that receive retirement benefits from a municipal retirement plan are entitled to purchase continued health benefits coverage for the person and the person's dependents unless the person is eligible for group health benefits coverage through another employer. The State of Texas has the authority to establish and amend the requirements of this statute. The City does not issue stand-alone financial statements for the health/dental plan. However, all required information is presented in this report.

Funding Policy

The contribution requirements of plan members are established by the City and may be amended as needed. Retiree medical/dental coverage levels for retirees are the same as coverage provided to active city employees in accordance with the terms and conditions of the current City Benefit Plan. Employees who retire with 15 or more years of service or Civil Service employees that retire who have a balance in excess of 90 days sick leave are eligible to continue receiving medical coverage in full 30-day periods for the term of their sick leave balance. They are required to pay a prorated premium for the days of coverage that are not funded by their excess sick leave. Plan members may purchase retiree health/dental care coverage for eligible spouses and dependents at their own expense and receive a benefit from the blended premium rate from all of the employees participating in the City's health insurance plans. The City is not required to make contributions to the plan on behalf of the retirees and funds the plan on a projected pay-as-you-go financing method. The plan has 713 active participants who pay monthly premiums of $362/$22 (medical/dental) for single coverage and $826/$49 (medical/dental) for family coverage, pre-65. For post-65, monthly premiums are $196/22 (medical/dental) for single coverage and $587/$49 (medical/dental) for family coverage.

Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB expense is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of accrual that is projected to recognize the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The annual OPEB cost for the fiscal year ended September 30, 2017 is as follows:

Annual Required Contribution (ARC)	$10,675,239
Interest on Net OPEB Obligation	2,670,612
Adjustment to the ARC	(2,680,770)
Annual OPEB Cost	10,665,081
Total Annual Employer Contribution, pay-as-you-go	(5,621,552)
Increase in Net OPEB Obligation	5,043,529
Net OPEB Obligation – Beginning of Year	71,216,321
Net OPEB Obligation – End of Year	$76,259,850

Three-Year Trend Information

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
09/30/2015	$14,544,646	34.7%	$59,911,103
09/30/2016	16,312,328	34.7%	71,216,321
09/30/2017	10,665,081	52.7%	76,259,850

Funded Status and Funding Progress: As of October 1, 2015, the most recent updated actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was $120,877,439; and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $120,877,439. The covered payroll was $122,938,662, and the ratio of the UAAL to the covered payroll was 98.3 percent.

Actuarial Methods and Assumptions: The individual entry age actuarial cost method was used to calculate the GASB ARC for the City's health care plan. Using the Plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The individual entry-age actuarial cost method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

Projections of health benefits are based on the plan as understood by the City and include the pattern of sharing benefit costs between the City and the City's employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Significant methods and assumptions were as follows:

Inflation rate	2.5% per annum
Investment rate of return	3.75% per annum, net of expenses
Actuarial cost method	Individual Entry Age Normal Cost Method
Amortization method	Level as a percentage of employee payroll
Amortization period	30-year open amortization
Payroll growth	3.0% per annum
Healthcare trend	Initial rate of 7.0% declining to an ultimate rate of 4.5% after 13 years

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the City's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time, relative to actuarial accrued liability for benefits.

I. DEFERRED COMPENSATION

The City offers its employees five deferred compensation plans in accordance with Internal Revenue Code ("IRC") Section 457. The plans, available to all city employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The plans' assets are held in trust for the exclusive benefit of the participants and their beneficiaries. The City does not provide administrative services or have any fiduciary responsibilities for these plans; therefore, they are not presented in the BFS.

J. SURFACE WATER SUPPLY

Canadian River Municipal Water Authority

The Canadian River Municipal Water Authority (CRMWA) is a Conservation and Reclamation Authority established by the Texas Legislature to construct a dam, water reservoir, and aqueduct system for the purpose of supplying water to surrounding cities. The Authority was created in 1953 and is comprised of eleven cities, including Lubbock. The budget, financing, and operations of the Authority are governed by a Board of Directors selected by the governing bodies of each of the member cities, each city being entitled to one or two members dependent upon population. At September 30, 2017, the Board was comprised of 18 members, two of which represented the City. The City contracted with the CRMWA to reimburse CRMWA for a portion of the cost of the Canadian River Dam and aqueduct system in exchange for surface water. The City's pro-rata share of annual fixed and variable operating and reserve assessments are recorded as an expense of obtaining surface water. The City has four contract revenue bonds to pay for the water rights. These assets and liabilities are recorded in the Water Enterprise Fund.

K. LONG-TERM DEBT

GENERAL OBLIGATION BONDS AND CERTIFICATES OF OBLIGATION:

Interest Rate%	Dated	Maturity Date	Amount Issued	Outstanding 09/30/17
4.80	04/15/08	08/15/28	2,035,000	95,000
4.42	04/15/08	08/15/28	80,485,000	4,075,000
2.45	06/01/08	08/15/28	22,615,000	13,505,000
4.67	03/01/09	08/15/29	2,645,000	660,000
3.12	03/01/09	08/15/19	20,540,000	1,555,000
4.53	03/01/09	08/15/29	58,705,000	14,620,000
2.16	01/01/10	02/15/30	19,945,000	14,270,000
3.27	02/15/10	02/15/30	8,840,000	2,495,000
5.69	02/15/10	02/15/30	15,320,000	15,320,000
2.70	02/15/10	02/15/30	48,955,000	6,930,000
5.67	02/15/10	02/15/30	96,540,000	96,540,000
1.93	10/05/10	02/15/30	41,000,000	29,120,000
3.85	03/15/11	02/15/22	16,320,000	4,520,000
3.85	03/15/11	02/15/31	14,135,000	11,025,000
3.94	03/15/11	02/15/31	112,230,000	82,685,000
3.35	04/01/12	02/15/32	12,395,000	10,110,000
3.43	04/01/12	02/15/32	66,075,000	51,500,000
3.28	04/01/12	02/15/31	15,200,000	10,285,000
1.61	05/21/13	02/15/21	39,705,000	31,615,000
2.05	05/21/13	02/15/33	42,075,000	37,050,000
2.80	05/21/13	02/15/33	49,440,000	39,630,000
2.64	05/01/14	02/15/26	44,920,000	39,335,000
3.25	05/01/14	02/15/34	62,900,000	55,345,000
3.11	04/15/15	02/15/35	102,490,000	96,305,000
2.42	04/15/15	02/15/28	129,665,000	113,930,000
3.21	05/01/15	02/15/31	28,305,000	27,435,000
2.41	04/15/16	02/15/34	26,660,000	26,325,000
2.72	04/15/16	02/15/36	101,305,000	98,500,000
2.47	11/1/2016	02/15/34	36,780,000	36,005,000
0.00	02/16/17	02/15/37	35,000,000	35,000,000
3.20	04/15/17	02/15/37	23,290,000	23,290,000
Total			$ 1,376,515,000	$ 1,029,075,000(A)

(A) Excludes net bond premiums and discounts – ($50,966,492) business-type and ($30,066,071) governmental. Additionally, this amount includes $710,892,185 of bonds used to finance enterprise fund activities.

At September 30, 2017, management of the City believes the City was in compliance with all financial bond covenants on outstanding general obligation bonded debt, certificates of obligation, tax notes, electric revenue bonded debt, and water contract bonded debt.

LP&L REVENUE BONDS

Interest Rate (%)	Issue Date	Final Maturity Date	Amount Issued	Balance Outstanding 09/30/17
2.45	10/15/10	4/15/20	73,295,000	24,890,000
1.90	4/15/13	4/15/24	16,570,000	10,210,000
3.09	5/01/14	4/15/34	16,245,000	13,545,000
3.41	4/15/15	4/15/35	11,865,000	11,050,000
3.04	4/15/16	4/15/46	7,535,000	7,225,000
3.60	08/15/17	02/15/47	17,760,000	17,760,000
Total			$ 143,270,000	$ 84,680,000 *

* Balance outstanding excludes ($7,421,228) of net bond premiums and discounts.

Debt is secured by a first lien on and pledge of the net revenues of the City's Electric Light and Power System. Remaining interest required to amortize all outstanding debt equals $30.1 million.

The general purpose for the debt is for acquiring, purchasing, constructing, improving, renovating, enlarging, and/or equipping property, buildings, structures, facilities and/or related infrastructure for the Electric Light and Power System. Net revenue available for debt service is 3.4 times the debt service requirements in FY17.

CONTRACT BONDS

Interest Rate (%)	Issue Date	Final Maturity Date	Amount Issued	Balance Outstanding 09/30/17
3.50 to 5.00	10/30/09	1/15/29	7,821,091	5,504,966
4.00 to 5.00	12/22/11	1/15/31	30,594,108	24,101,495
2.00 to 5.00	1/20/2013	2/15/25	10,970,000	8,369,583
2.00 to 5.00	12/02/14	2/15/27	11,078,489	9,813,267
Total			$ 60,463,688	$ 47,789,311 *

* Balance outstanding excludes ($4,226,990) of bond premiums.

TAX NOTE

Interest Rate (%)	Issue Date	Final Maturity Date	Amount Issued	Balance Outstanding 09/30/17
1.78	07/11/17	02/15/24	18,220,000	18,220,000
Total			$ 18,220,000	$ 18,220,000

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

The annual requirements to amortize all outstanding debt of the City as of September 30, 2017 are as follows:

Governmental Activities

Fiscal Year	General Obligation Bonds Principal	General Obligation Bonds Interest	Tax Notes Principal	Tax Notes Interest
2018	$ 26,445,546	$ 13,757,038	$ 3,197,808	$ 181,766
2019	26,478,891	12,583,118	2,043,593	116,976
2020	26,339,757	11,463,881	1,286,305	87,340
2021	25,531,974	10,309,646	1,037,002	66,662
2022	25,070,071	9,151,519	1,055,743	48,037
2023-2027	105,586,152	29,250,936	2,170,833	38,835
2028-2032	59,110,424	9,870,566	-	-
2033-2037	23,620,000	1,568,575	-	-
Totals	$ 318,182,815	$ 97,955,279	$ 10,791,284	$ 539,616

Business-Type Activities

Fiscal Year	General Obligation Bonds Principal	General Obligation Bonds Interest	Tax Notes Principal	Tax Notes Interest	Revenue/Contract Bonds Principal	Revenue/Contract Bonds Interest
2018	$ 51,324,455	$ 28,885,336	$ 2,517,191	$ 122,317	$ 15,009,034	$ 5,695,022
2019	51,161,109	26,917,012	1,506,407	74,018	15,654,402	5,284,773
2020	49,595,242	25,057,021	843,695	53,102	16,273,060	4,637,820
2021	49,738,026	23,082,805	622,998	40,049	7,928,391	3,869,852
2022	46,869,929	21,071,640	634,257	28,859	8,174,026	3,511,836
2023-2027	241,773,848	73,214,568	1,304,168	23,331	34,310,278	12,059,125
2028-2032	171,919,576	23,628,655	-	-	18,795,120	5,644,535
2033-2037	48,510,000	2,387,616	-	-	8,025,000	2,599,238
2038-2042	-	-	-	-	3,740,000	1,465,744
2043-2047	-	-	-		4,560,000	549,925
Totals	$ 710,892,185	$ 224,244,653	$ 7,428,716	$ 341,676	$ 132,469,311	$ 45,317,870

Capital leases were used to acquire equipment and vehicles. The lessor holds title to the equipment and vehicles until the lease is paid. The interest rate on the leases ranged from 1.0 percent to 4.6 percent. The requirements on capital leases of the City as of September 30, 2017, including interest payments totaling $1,903,172, are as follows:

Fiscal Year	Governmental Capital Lease Minimum Payment	Business-type Capital Lease Minimum Payment	Total Capital Lease Minimum Payment
2018	3,519,429	3,603,944	7,123,373
2019	3,519,429	3,603,944	7,123,373
2020	2,437,797	2,205,493	4,643,290
2021	2,189,305	2,082,052	4,271,357
2022	1,763,836	1,769,599	3,533,435
2023-2027	3,253,276	1,890,941	5,144,217
Less Interest	(1,068,524)	(834,648)	(1,903,172)
Total	$ 15,614,548	$ 14,321,325	$ 29,935,873

The carrying values on the leased assets of the City as of September 30, 2017 are as follows:

	Gross Value	Accumulated Depreciation	Net Book Value
Governmental Activities	$ 34,272,391	$ 10,767,425	$ 23,504,966
Business-Type Activities	46,132,079	14,063,871	32,068,208
Total Leased Assets	$ 80,404,470	$ 24,831,296	$ 55,573,174

Long-term obligations for governmental and business-type activities for the year ended September 30, 2017 are as follows:

	Debt Payable 09/30/16	Additions	Deletions	Debt Payable 09/30/17	Due in one year
Governmental activities:					
Tax-Supported -					
Obligation Bonds	$ 333,499,954	$ 34,061,284	$ 38,587,139	$ 328,974,099	$ 29,643,354
Bond Premiums	32,013,843	2,560,232	4,508,004	30,066,071	-
Capital Leases	25,549,907	-	9,935,359	15,614,548	3,214,068
Compensated Absences	28,774,738	11,686,881	10,552,038	29,909,581	9,960,343
Post-Employment Benefits	47,618,697	7,145,604	3,713,447	51,050,854	-
Net Pension Liability	160,648,258	53,983,916	45,309,667	169,322,507	-
Insurance Claims Payable	1,692,743	27,751,203	27,735,777	1,708,169	1,539,429
Total Governmental activities	$ 629,798,140	$ 137,189,120	$ 140,341,431	$ 626,645,829	$ 44,357,194
Business-type activities:					
Self-Supported -					
Obligation Bonds	$ 712,515,046	$ 79,228,716	$ 73,422,861	$ 718,320,901	$ 53,841,646
Revenue and Contract Bonds	128,835,809	17,760,000	14,126,498	132,469,311	15,009,034
Bond Premiums	67,087,636	6,157,526	10,630,452	62,614,710	-
Note Payable	2,500,000	-	1,250,000	1,250,000	1,250,000
Capital Leases	23,449,316	-	9,127,991	14,321,325	3,336,132
Closure/Post Closure	5,575,049	101,035	-	5,676,084	-
Compensated Absences	6,320,328	3,864,684	3,838,583	6,346,429	4,522,928
Post-Employment Benefits	23,597,625	3,519,477	1,908,106	25,208,996	-
Net Pension Liability	48,434,087	16,600,662	16,308,167	48,726,582	-
Insurance Claims Payable	1,291,107	7,406,037	5,785,286	2,911,858	1,005,258
Total Business-type activities	$ 1,019,606,003	$ 134,638,137	$ 136,397,944	$ 1,017,846,196	$ 78,964,998

Payments on bonds payable for governmental activities are made in the Debt Service Fund. Bonded debt is subject to the applicability of federal arbitrage regulations. In FY 2017, the City did not have any outstanding federal arbitrage. Accrued compensated absences that pertain to governmental activities will be liquidated by the General Fund and Special Revenue Funds. The Risk Management Internal Service Fund will liquidate insurance claims payable that pertain to governmental activities. Payments for the capital leases that pertain to the governmental activities will be liquidated by the General Fund and Special Revenue Funds.

The General Fund will liquidate the other postemployment benefit obligation that pertains to governmental activities. The net pension liability that pertains to the governmental activities will be liquidated mainly by the General Fund.

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

Long-Term Debt - Governmental Activities	$ 626,645,829	
Long-Term Debt - Business-Type Activities	1,017,846,196	
Interest	368,399,094	
Total Amount of Debt		$ 2,012,891,119
Less: Bond Discounts/Premiums	(92,680,781)	
Less: Capital Leases	(29,935,873)	
Less: Notes Payable	(1,250,000)	
Less: Closure/Post Closure	(5,676,084)	
Less: Compensated Absenses	(36,256,010)	
Less: Post Employment Benefits	(76,259,850)	
Less: Net Pension Liability	(218,049,089)	
Less: Insurance Claims Payable	(4,620,027)	
Total Other Debt		(464,727,714)
Total Future Bonded Debt Requirements		$ 1,548,163,405

New Bond Issuance

In February 2017, the City issued $35,000,000 Tax and Waterworks System Surplus Revenue Certificates of Obligation, Series 2017 (Certificates), with an interest rate of 0 percent. The Certificates were issued at par. The $35,000,000 proceeds from the sale of the Certificates will be used for the purpose of paying i) construction, improvements, renovations, relocations and extensions to the City's storm water facilities and infrastructure, including the Northwest Lubbock Drainage Improvements Project (the "Project"); and (ii) payment of professional services of attorneys, financial advisors, engineers and other professionals in connection with the Project and the issuance of the Certificates. The proceeds of the debt are recorded in the Stormwater’s Capital Project Fund.

In April 2017, the City issued $23,290,000 Tax and Waterworks System Surplus Revenue Certificates of Obligation, Series 2017A (Certificates), with interest rates ranging from 2.00 percent to 5.00 percent. The Certificates were issued at a premium of $2,501,546 and incurred issuance cost of $285,357. The $25,791,546 proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations to be incurred for various public improvements and renovations including : (i) design, relocation, upgrading and replacement of public utility infrastructure and construction of gateways and green spaces in the Central Business District; (ii) renovations, improvements and extensions to City streets, including sidewalks, street lighting, traffic signals/controllers and traffic signal communication systems, signage, landscaping, utility improvements, extensions, relocations and acquisition of land, rights-of-way and equipment in connection therewith; (iii) improvements, renovations, replacements, relocations and extensions to the City’s Wastewater System; (iv) improvements, renovations, replacements, relocations and extensions to the City’s Waterworks System; and (v) payment of professional services of attorneys, financial advisors, engineers and other professionals in connection with the Project and the issuance of the Certificates. The proceeds of the debt are recorded in the various Capital Projects Funds.

In August 2017, the City issued $17,760,000 Electric Light and Power System Revenue Bonds, Series 2017 (Bonds), with interest rates from 4.00 percent to 5.00 percent. The Bonds were issued at a premium of $2,083,590 and incurred issuance costs of $256,181. $19,843,590 of the proceeds of the sale of the Bonds will be used for the purpose of paying contractual obligations to be incurred for the purposes of: (i) paying the costs of acquiring, purchasing, constructing, improving, renovating, enlarging, and/or equipping property, buildings, structures, facilities, and/or related infrastructure for the System, (ii) funding capitalized interest, (iii) funding the reserve fund requirement for the Bonds, and (iv) paying the costs of issuing the Bonds.

Advance Refunding

In November 2016, the City issued $36,780,000 General Obligation Refunding Bonds, Series 2016A (Bonds), with interest rates ranging from 3.125 percent to 5.00 percent. The Bonds were issued at a premium of $4,132,622 and incurred issuance cost of $375,746. The $40,912,622 bond proceeds were used to refund a portion of the City's outstanding indebtedness for the purpose of achieving debt service savings. The net proceeds were deposited with the Escrow Agent in an amount necessary to accomplish, on their scheduled redemption date, the discharge and final payment on the Refunded Bonds. These funds will be held by the Escrow Agent in a special escrow fund and used to purchase direct obligations of the United States of America. Under the escrow agreements between the City and the Escrow Agent, the escrow funds are irrevocably pledged to the payment of principal and interest on the Refund Bonds. The bonds refunded $39,640,000 of outstanding debt. As a result of the refunding, the City decreased total debt service requirements by $6,680,610, which resulted in an accounting loss of $1,454,451 and an economic gain of $5,495,600, or a 13.86 percent savings on refunded bonds.

Prior year defeasance of debt. In prior years, the City defeased bonds by placing the proceeds of the new bonds in an irrevocable trust account to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the government's financial statements. At September 30, 2017, $195,960,000 of defeased bonds remain outstanding.

L. CONDUIT DEBT

In the past, the City has approved the issuance of Health Facilities Development Corporation Bonds and Education Facilities Authority Bonds to provide financial assistance to private sector entities for the acquisition and construction of public facilities. The bonds are secured by the property financed. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. The City, nor the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of September 30, 2017, there was one series of Lubbock Health Facilities Development Corporation Bonds outstanding with an aggregate principal amount payable of $70,580,000. The bonds were issued in 2008. Also as of September 30, 2017, there was one series of Lubbock Education Facilities Authority Inc. Bonds outstanding with an aggregate principal amount payable of $21,340,000. The bonds were issued in 2007 and refunded in FY 2016.

M. SPECIAL ASSESSMENT DEBT

In FY 2008, the Vintage Township Public Facilities Corporation (PFC), a discretely presented component unit of the City, issued special assessment debt for the acquisition and construction of certain public facilities benefiting Vintage Township. The PFC had $2,076,000 outstanding special assessment debt as of September 30, 2017. The City collects assessments and forwards the collections to the bondholders. The City is not obligated in any manner for special assessment debt and is not liable for repayment of the debt. As the PFC completes construction of certain public facilities, the assets are donated to the City. As of September 30, 2017, $4,677,257 in completed construction costs was contributed to the City. The PFC has a deficit in unrestricted net position, which is a result of the debt held in the PFC name while the assets are donated to the City and held in the City's name.

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

N. FUND BALANCE

The City classified governmental fund balances as follows:

	General Fund	Governmental Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balances				
Nonspendable:				
Inventory	$ 119,300	$ -	$ -	$ 119,300
Restricted:				
Debt Service	1,966,885	-	8,279,846	8,279,846
Economic and Business Development	-	-	49,396	49,396
Tourism, Convention Centers, Arts	-	-	509,645	509,645
Animal Assistance	-	-	369,037	369,037
Tax Improvement Financing Areas	-	-	4,084,356	4,084,356
Public Improvement Districts	-	-	1,459,097	1,459,097
Cable Services to Public Buildings	-	-	2,774,772	2,774,772
Community Services Grants	-	-	135,922	135,922
Health Grants	-	-	41,754	41,754
Police Grants	-	-	65,400	65,400
Cultural and Recreation Grants	-	-	14,585	14,585
Law Enforcement Purposes	-	-	769,819	769,819
Court Technology	-	-	564,939	564,939
Donations for Community Services	-	-	51,874	51,874
Donations for Animal Services	-	-	67,366	67,366
Donations for Museums	-	-	177,124	177,124
Donations for Parks and Recreational	-	-	114,940	114,940
Donations for Fire Services	-	-	6,702	6,702
Donations for Police Services	-	-	6,105	6,105
Donations for Cultural			26,731	26,731
Donations for Other Programs	-	-	818	818
Street Capital Projects	-	6,442,333	1,713,182	8,788,366
General Facility Capital Projects	-	651,113	-	651,113
Public Safety Capital Projects	-	57,601,225	-	58,949,740
Parks Capital Projects	-	994,973	-	994,973
TIF Capital Projects	-	-	7,776,378	8,116,927
Committed:				
Gateway Street Capital Projects	-	-	10,803,868	10,803,868
Infrastructure and neighborhood dev	-	-	690,321	690,321
Street Capital Projects	-	6,818,877	-	4,837,511
Unassigned	37,543,346	-	(621,125)	38,548,557
Total Fund Balances	**$ 39,629,531**	**$ 72,508,521**	**$ 39,932,852**	**$ 152,070,904**

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

O. RISK MANAGEMENT

The Risk Management Fund was established to account for liability claims, workers' compensation claims, and premiums for property/casualty insurance coverage. The Risk Management Fund generates its revenue through charges to other departments, which are based on costs.

In April 1999, the City purchased workers' compensation coverage, with no deductible, from Texas Municipal League Intergovernmental Risk Pool (TML-IRP) with continuous coverage through September 30, 2009. Effective October 1, 2009 the City purchased workers' compensation coverage from Texas Political Subdivisions Joint Self-Insurance Fund (TPS). TPS operates as a self-insurance pool offering coverage to municipalities and other political subdivisions in accordance with the local government code and the terms of interlocal agreements among members. The City obtains workers' compensation coverage through a guaranteed-cost plan. Guaranteed-cost members combine their contributions to cover pooled losses and expenses. As required by interlocal agreement, TPS obtains specific excess of loss coverage over and above the self-insured retention stated in the agreement so that members will not have joint and several liabilities beyond their required contribution. Prior to April 1999, the City was self-insured for workers' compensation claims. Any claims outstanding prior to April 1999 continue to be the City's responsibility.

The City's self-insurance liability program is funded on a cash flow basis, which means that the servicing contractor processes, adjusts, and pays claims from a deposit account provided by the City. The City accounts for the liability program by charging premiums to replenish funds based upon losses, administrative fees, premiums, and reserve requirements. In order to control the risks associated with liability claims, the City purchases excess liability coverage with an $18 million annual aggregate limit and is subject to a $500,000 self-insured retention per claim.

For self-insured coverage, the Risk Management Fund establishes claim liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported (IBNR). The length of time for which such costs must be estimated varies depending on the coverage involved. Because actual claim costs depend on complex factors such as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claim liabilities does not necessarily result in an exact amount, particularly for liability coverage. Claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. Adjustments to claim liabilities are charged or credited to an expense account in the period in which they are incurred.

Additionally, property and boiler coverage is accounted for in the Risk Management Fund. The property insurance policy was purchased from an outside insurance carrier. The policy has a $250,000 deductible per occurrence, and the boiler coverage insurance deductible is up to $500,000, dependent upon the unit. Premiums are charged to funds based upon estimated premiums for the upcoming year. Departments that sustain property damage in excess of $10,000 are eligible to request assistance from the Risk Management Fund for payment of those damages up to the $250,000 policy deductible.

Other small insurance policies, such as surety bond coverage and miscellaneous floaters, are also accounted for in the Risk Management Fund. Funds are charged based on premium amounts and administrative charges. Settlements in the current year and preceding two years have not exceeded insurance coverage. The City accounts for all insurance activity in the Internal Service Funds.

P. HEALTH INSURANCE

The City provides medical and dental insurance for all full-time employees and accounts for these activities in the Health Benefits Fund. Revenue for the health insurance program is generated from each cost center, based upon the number of active full-time employees. The City's plan is self-insured under an Administrative Services Only (ASO) Agreement. The City purchases excess coverage of $350,000 per covered individual annually. Beginning on January 1, 2012, the City discontinued coverage that included an aggregate cap. The insurance vendor, based on medical trend, claims history, and utilization assists in the determination of the individual deductible. The actuarially determined calculation of the claim liability was $1.69 million at September 30, 2017 for all health coverages including medical, prescription drugs, and dental.

The City also provides full-time employees basic term life insurance. The life insurance policy has a face value of $10,000 per employee.

Full-time employees may elect to purchase medical insurance for eligible dependents at a reduced rate. The Health Fund paid for employee only dental coverage from January 1, 2013 through October 15, 2015 and then it resumed to being charged to departments. Employees may elect to purchase dental insurance for eligible dependents. Employees may also elect, at their cost, to participate in several voluntary insurance programs such as a cancer policy, voluntary life, and personal accident insurance.

The Risk Management and Health Benefits Funds established a liability for self-insurance for both reported and unreported insured events, which included estimates of future payments of losses and related claim adjustment expenses.

The following represents changes in those aggregate liabilities for these funds during the past two years ended September 30:

	FY 2017	FY 2016
Workers' Compensation and Liability Reserves at Beginning of Fiscal Year	$ 1,291,107	$ 2,141,031
Claims Expenses	7,406,037	3,883,199
Claims Payments	(5,785,286)	(4,733,123)
Workers' Compensation and Liability Reserves at End of Fiscal Year	2,911,858	1,291,107
Medical and Dental Claims Liability at Beginning of Fiscal Year	1,692,743	1,644,549
Claims Expenses	27,751,203	26,148,351
Claims Payments	(27,735,777)	(26,100,157)
Medical and Dental Claims Liability at End of Fiscal Year	1,708,169	1,692,743
Total Self-Insurance Liability at End of Fiscal Year	$ 4,620,027	$ 2,983,850
Total Assets to Pay Claims at End of Fiscal Year	$ 22,525,450	$ 23,429,065
Accrued Insurance Claims Payable - Current	$ 2,544,687	$ 2,102,155
Accrued Insurance Claims Payable - Noncurrent	2,075,340	881,695
Total Accrued Insurance Claims	$ 4,620,027	$ 2,983,850

Q. LANDFILL CLOSURE AND POSTCLOSURE CARE COST

State and federal laws and regulations require the City to place final covers on its landfill sites at closure and to perform certain maintenance and monitoring functions for 30 years thereafter. Although closure and post closure care costs will be paid only near or after the date that the landfills stop accepting waste, the City reports a portion of these closure and post closure costs as operating expenses (and recognizes a corresponding liability) in each period based on landfill capacity used as of each statement of net position date.

The $5,676,084 included in landfill closure and post closure care liability at September 30, 2017, represents the cumulative amount expensed by the City to date for its two landfills, that are registered under TCEQ permit numbers 69 (Landfill 69) and 2252 (Landfill 2252), less amounts that have been paid. Approximately 96.2 percent of the estimated capacity of Landfill 69 has been used, with $607,037 remaining to be recognized over the remaining closure period. Approximately 7.0 percent of the estimated capacity of Landfill 2252 has been used to date, with $19,255,008 remaining to be recognized over the remaining closure period. Post closure care costs are based on prior estimates and have been adjusted for inflation. Actual costs may differ due to inflation, deflation, changes in technology, or other regulatory changes.

The City is required by state and federal laws and regulations to provide assurance that financial resources will be available for landfill closure, post closure care, and remediation or containment of environmental hazards. The City is in compliance with these requirements and has chosen the Local Government Financial Test mechanism for providing assurance. The City expects to finance costs through normal operations.

R. DISAGGREGATION OF ACCOUNTS – FUND FINANCIAL STATEMENTS

	Accounts Receivable Summary				
	Court Fines	Property Damage	Paving	Misc.	Balance at 09/30/17
Governmental Funds:					
General Fund	$ 2,856,697	$ 433,133	$ 221,417	$ 29,154	$ 4,224,105
Capital Projects	-	-	-	4,060	4,060
Nonmajor	-		-	-	-
Total	$ 2,856,697	$ 433,133	$ 221,417	$ 33,214	$ 4,232,225

	Accounts Receivable Summary		
	General Consumer	Misc.	Balance at 09/30/17
Proprietary Funds:			
LP&L	$ 35,393,704	$ 827,832	$ 36,221,536
Water	10,172,547	69,230	10,241,777
Wastewater	5,097,103	770	5,097,873
WTMPA	758,456	-	758,456
Storm Water	2,932,469	-	2,932,469

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

Allowance for Doubtful Accounts Summary

	Balance at 09/30/17
Governmental Funds:	
General Fund	$ 2,967,734
Proprietary Funds:	
LP&L	2 ,283,881
Water	1,186,462
Wastewater	533,303
Storm Water	295,557
Nonmajor	367,126
Total	$ 7,634,063

Accounts Payable Summary

	Vouchers	Accounts	Miscellaneous	Balance at 09/30/17
Governmental Funds:				
General Fund	$ 1,068,315	$ 3,197,978	$ -	$ 4,266,293
Govt. Capital Projects	1,841,442	129,393	316,421	2,287,256
Nonmajor	690,283	1,320,772	616,556	2,627,611
Proprietary Funds:				
LP&L	1,291,404	114,002	126,202	1,531,608
Water	4,579,201	1,996,105	1,947,739	8,523,045
Wastewater	2,248,336	839,008	5,488,304	8,575,648
WTMPA	-	15,453,177	-	15,453,177
Storm Water	4,148,505	65,624	437,971	4,652,100
Nonmajor	1,341,106	727,343	591,170	2,659,619
Internal Service	1,025,605	346,710	1,240,179	2,612,494
Total	$ 18,234,197	$ 24,190,112	$ 10,764,542	$ 53,188,851

S. DISAGGREGATION OF ACCOUNTS - GOVERNMENT-WIDE

	Net Receivables				
	Accounts Receivable	Interest Receivable	Taxes Receivable	Internal Service Receivables	Balance at 09/30/17
Governmental Activities	$ 576,727	$ 144,514	$ 13,955,421	$ 16,391	$ 14,693,053
Business-Type Activities	54,723,882	311,806	-	10,712	55,046,400
Total	$ 55,300,609	$ 456,320	$ 13,955,421	$ 27,103	$ 69,739,453

	Accounts Payable		
	Accounts Payable	Internal Service Payables	Balance at 09/30/17
Governmental Activities	$ 9,181,160	$ 1,610,452	$ 10,791,612
Business-Type Activities	41,395,197	1,002,042	42,397,239
Total	$ 50,576,357	$ 2,612,494	$ 53,188,851

T. FUND CLOSURES

There were no fund closures this fiscal year.

NOTE IV. CONTINGENT LIABILITIES

A. FEDERAL GRANTS

In the normal course of operations, the City receives grant funds from state and federal agencies. The grant programs are subject to audits by agents of the granting authority to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of audits of grants is not believed to be significant.

B. LITIGATION

The City is involved in various legal proceedings related to alleged personal and property damages, breach of contract and civil rights cases, some of which involve claims against the City that exceed $500,000. State law limits municipal liability for personal injury to $250,000 per person/$500,000 per occurrence and property damage to $100,000 per claim for activities arising out of its governmental functions. This limit is not applicable to claims pertaining to the City's electric utility.

The City's insurance coverage, if available, contains a $500,000 self-insured retention. As of September 30, 2017, the City has $909,556 reserved on general liability claims, as determined by an actuarial calculation.

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

Coyote Lake Ranch, L.L.C v. City of Lubbock

The City purchased water rights on the Plaintiff's property and Plaintiff is suing for breach of contract asserting City has not paid for surface damages. However, the main issue pertains to whether the "accommodation doctrine" applies and whether the City must accommodate the surface owner as it drills and develops its water well field. The most recent ruling by the Texas Supreme Court confirmed the accommodation doctrine does apply to the City but the City is not prevented from performing any activities in developing the well field. The challenge for the City will be how to set up the well field based on the accommodation doctrine.

Lazaro Walck v. City of Lubbock

The Plaintiff is alleging an adverse personnel action was taken against him and is suing the City under the Whistleblower Statute. The City filed a Motion for Summary Judgment and a Plea to the Jurisdiction asserting that the Plaintiff could not sue the City since the Plaintiff filed two grievances and received all the relief he requested in each grievance. It was denied, and the City appealed. The Court of Appeals ruled that the Plaintiff could pursue damages as to one of the grievances but not the other. The City filed a Petition to Review with the Texas Supreme Court and they declined to hear the case. The City filed an Amended Motion for Summary Judgment and an Amended Plea to the Jurisdiction. It was granted in March 2017 and Plaintiff has appealed.

Racquel Davis v. City of Lubbock

The Plaintiff is alleging the City sold defective hay to her that resulted in the death of two of her horses and with one becoming very sick and continuing to suffer the effects from the defective hay. Under Texas law, if a governmental entity is performing a governmental function, they are not liable for property damage unless it is caused by the use of motor-driven equipment. The City filed a Plea to the Jurisdiction asserting the same, stating that the hay was the end result of the City's process of disposal of treated effluent. The court granted the City's plea and the Plaintiff has appealed the ruling.

Beck Steel, Inc. et al. v. City of Lubbock et al.

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

Alexa Jarpe and Jeremy Leech v. City of Lubbock

The Plaintiffs were injured in an auto accident with a City police vehicle that was responding to an armed robbery and are claiming negligence for speeding and responding to an emergency without use of lights and siren.

Texas Tech University v. City of Lubbock

Plaintiff has claimed an overpayment of approximately $3,900,000 was received by LP&L under a Power Purchase Agreement, but nothing has been filed yet. The City intends to vigorously defend itself in this action, both as to liability and damages, and will assert any and all applicable legal defenses, file the necessary dispositive motions, and try each case if necessary.

Jillian Standley v. City of Lubbock and Lubbock Power and Light

The Plaintiff was injured in an auto accident with a City vehicle/employee and is claiming damages as a result of the accident.

Paul Valderas v. Officer Billy Mitchell and City of Lubbock

This is a civil rights case in which the Plaintiff is alleging use of excessive force resulting in injury during his arrest.

Angel Aleman v. Officer Ross Quarles

This is a civil rights case in which the Plaintiff is alleging use of excessive force during his arrest.

C. SITE REMEDIATION

The City accounts for pollution remediation obligations in accordance with Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The City contracts with an engineering firm to perform the necessary remediation activities and cost estimates. Pollution remediation obligations are estimates and subject to changes resulting from price increases or reductions, technology, or changes in applicable laws or regulations.

As of September 30, 2017, the City owns one property with environmental issues that meet the criteria for "obligating events" and disclosure under GASB Statement No. 49. The LP&L Cook Plant issue resulted from underground storage tanks. This property meeting the criteria has been in existence for several years and is at the "remediation design and implementation, through and including operation and maintenance, and post remediation monitoring" benchmark discussed in GASB 49. In fact, the City has been monitoring and recording this obligation for at least ten years.

The City contracts with an engineering firm (eHT/Enprotec) to perform the necessary remediation activities. Enprotec works closely with the Texas Commission on Environmental Quality (TCEQ) on this property. The remediation activities the City is required to perform have been approved by TCEQ. The City has a set plan of action for this property that TCEQ requires the City to follow.

The Cooke plan also requires asbestos remediation in the amount of $65,199. The City has an Asbestos Coordinator who works with consultants to address these properties as they arise.

As of September 30, 2017, the City recorded pollution remediation obligation in the LP&L enterprise fund as follows:

- LP&L Cooke Plant - $307,467

Required Supplementary Information

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

	2017	2016	2015
Total pension liability			
Service Cost	$ 15,823,941	$ 15,646,134	$ 13,880,535
Interest (on the total pension liability)	43,569,660	43,381,064	41,941,717
Difference between expected and actual experience	(116,124)	(2,308,849)	(5,561,662)
Change of assumptions	-	1,083,512	-
Benefit payments, including refunds of employee contributions	(32,040,199)	(32,247,421)	(28,915,142)
Net Change in Total Pension Liability	27,237,278	25,554,440	21,345,448
Total Pension Liability - Beginning	653,584,576	628,030,136	606,684,688
Total Pension Liability - Ending (a)	$ 680,821,854	$ 653,584,576	$ 628,030,136
Plan Fiduciary Net Position			
Contributions - Employer	$ 16,727,368	$ 17,455,926	$ 16,809,722
Contributions - Employee	6,519,575	6,580,584	6,187,966
Net Investment Income	35,696,237	791,199	29,351,843
Benefit payments, including refunds of employee contributions	(32,040,199)	(32,247,421)	(28,915,142)
Administrative Expense	(403,223)	(481,936)	(306,464)
Other	(21,725)	(23,803)	(25,196)
Net Change in Plan Fiduciary Net Position	26,478,033	(7,925,451)	23,102,729
Plan Fiduciary Net Position - Beginning	528,295,289	536,220,740	513,118,011
Plan Fiduciary Net Position - Ending (b)	$ 554,773,322	**$** 528,295,289	**$** 536,220,740
City's Net Pension Liability - Ending (a) - (b)	$ 126,048,532	**$** 125,289,287	**$** 91,809,396
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	81.49%	80.83%	85.38%
Covered Payroll	93,136,791	93,914,371	88,287,852
City's Net Pension Liability as a Percentage of Covered Payroll	135.34%	133.41%	103.99%

NOTE: The City implemented GASB Statement No. 68 in FY 2015. Information in this table has been determined as of the measurement date (December 31) of the net pension liability and will ultimately contain information for ten years.

Changes in assumptions: In 2016, the discount rate was lowered from 7.0% to 6.75%; the inflation rate was lowered from 3% to 2.5%; the experience study for retirement age was updated.

City of Lubbock, Texas
Required Supplementary Information
Schedule of Contributions
Texas Municipal Retirement System

	2017	2016	2015
Actuarially Determined Contribution	$ 17,128,597	$ 16,819,070	$ 16,822,154
Contributions in relation to the actuarially determined contribution	17,128,597	16,819,070	16,822,154
Covered payroll	95,409,809	92,797,625	90,076,485
Contributions as a percentage of covered payroll	17.95%	18.12%	18.68%

Notes to Schedule of Contributions

Valuation Date:	
Notes	Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 12 months and one day later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	29 years
Asset Valuation Method	10 Year smoothed market, 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation puruant 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

	2017	2016	2015
Total pension liability			
Service Cost	$ 6,133,418	$ 5,897,517	$ 5,670,689
Interest (on the total pension liability)	19,752,539	18,983,849	18,188,061
Difference between expected and actual experience	1,284,558	-	(1,634,184)
Change of assumptions	-	-	9,070,157
Benefit payments, including refunds of employee contributions	(15,782,381)	(14,614,970)	(13,429,152)
Net Change in Total Pension Liability	11,388,134	10,266,396	17,865,571
Total Pension Liability - Beginning	256,629,244	246,362,848	228,497,277
Total Pension Liability - Ending (a)	$ 268,017,378	$ 256,629,244	$ 246,362,848
Plan Fiduciary Net Position			
Contributions - Employer	$ 6,598,900	$ 6,652,094	$ 6,234,058
Contributions - Employee	3,774,706	3,716,202	3,424,188
Net Investment Income	7,668,252	(5,133,050)	991,921
Difference between expected and actual experience	-	-	-
Benefit payments, including refunds of employee contributions	(15,782,381)	(14,614,970)	(13,429,152)
Administrative Expense	(322,882)	(244,762)	(205,266)
Other	1,244,040	136,500	53,411
Net Change in Plan Fiduciary Net Position	3,180,635	(9,487,986)	(2,930,840)
Plan Fiduciary Net Position - Beginning	172,836,186	182,324,172	185,255,012
Plan Fiduciary Net Position - Ending (b)	**$** 176,016,821	$ 172,836,186	$ 182,324,172
City's Net Pension Liability - Ending (a) - (b)	**$** 92,000,557	$ 83,793,058	$ 64,038,676
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	65.67%	67.35%	74.01%
Covered Payroll	30,367,707	29,897,052	27,547,772
City's Net Pension Liability as a Percentage of Covered Payroll	302.96%	280.27%	232.46%

NOTE: The City implemented GASB Statement No. 68 in FY 2015. Information in this table has been determined as of the measurement date (December 31) of the net pension liability and will ultimately contain information for ten years.

Changes in assumptions: In 2015, the discount rate was lowered from 8.0% to 7.75%.

City of Lubbock, Texas
Required Supplementary Information
Schedule of Contributions
Lubbock Fire Pension Fund (LFPF)

	2017	2016	2015
Contractually Determined Contribution	$ 7,071,721	$ 6,591,298	$ 6,316,139
Contributions in relation to the contractually determined contribution	7,071,721	6,591,298	6,316,139
Covered payroll	32,554,784	30,141,037	28,277,981
Contributions as a percentage of covered payroll	21.72%	21.87%	22.34%

Notes to Schedule of Contributions

Valuation Date:	
Notes	Contractually determined contribution rates for 2017 were based on the contracted contribution rate.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	33.5 years
Asset Valuation Method	5 Year smoothed market, 20% market value corridor
Inflation	3.0%
Salary Increases	4.00% to 11.28% including inflation based on service at attained age
Investment Rate of Return	7.75%
Retirement Age	Experience-based table of rates that are specific to the LFPF plan of benefits.
Mortality	Employee and healthy annuitant combined rates from the RP2000 Mortality Table, projected to 2024 using Scale AA, with separate rates for males and females.

Other Information

Notes	There were no benefit changes during the year.

NOTE: The City implemented GASB Statement No. 68 in FY 2015. Information in this table has been determined as of the City's most recent fiscal year-end (September 30) and will ultimately contain information for ten years.

City of Lubbock, Texas
Required Supplementary Information
Schedule of Funding Progress
For the Year Ended September 30, 2017

Other Postemployment Benefit Plan (OPEB)[1]

Actuarial Valuation Date	Plan	Value of Assets (a)	Liability (AAL) (b)	AAL (UAAL) (b-a)	Ratio as a Percentage (a/b)	Covered Payroll (c)	of covered Payroll ((b-a)/c))
10/1/07	OPEB	-	81,918,738	81,918,738	-	88,185,412	92.9
10/1/09	OPEB	-	126,167,945	126,167,945	-	95,693,148	131.8
10/1/11	OPEB	-	154,305,935	154,305,935	-	108,102,087	142.7
10/1/13	OPEB	-	155,021,339	155,021,339	-	110,942,802	139.7
10/1/15	OPEB	-	120,877,439	120,877,439	-	122,938,662	98.3

[1]Health/Dental Care Insurance Plan

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Amounts determined regarding the funded status and the annual required contributions of the City's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The detailed discussion of the actuarial assumptions used for the updated City of Lubbock Retiree Health Care Plan Actuarial Valuation Report as of October 1, 2015 can be obtained from the City.

City of Lubbock, Texas
Required Supplementary Information
Mandatory Budgetary Comparison Schedule
General Fund
For the Year Ended September 30, 2017

	Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance with Final Budget - Positive (Negative)
REVENUES				
Taxes				
Property Tax	$ 55,381,737	$ 55,381,737	$ 55,516,662	$ 134,925
Delinquent Taxes	802,000	802,000	736,012	(65,988)
Sales Tax	63,833,276	63,833,276	64,549,831	716,555
Mixed Beverage Tax	1,275,000	1,275,000	1,334,638	59,638
Bingo Tax	280,000	280,000	269,307	(10,693)
Suddenlink	1,195,000	1,195,000	1,199,805	4,805
Excel	3,000	3,000	28,069	25,069
South Plains Electric Cooperative	540,000	540,000	718,915	178,915
Atmos	1,392,912	1,392,912	1,519,515	126,603
West Texas Gas Company	7,000	7,000	11,542	4,542
Telecom Right of Way	1,732,065	1,732,065	1,630,723	(101,342)
Development Services	233,550	233,550	208,327	(25,223)
General Government	92,521	92,521	167,645	75,124
City Secretary	316,360	316,360	328,947	12,587
Public Safety	925,408	925,407	814,679	(110,728)
Public Works	69,582	69,582	174,469	104,887
Health	50,473	50,473	57,809	7,336
Animal Shelter	127,000	127,000	135,114	8,114
Cultural/Recreational	1,084,818	1,123,818	1,003,264	(120,554)
Museum	278,350	278,350	256,994	(21,356)
Licenses and Permits	3,254,774	3,254,774	3,279,705	24,931
Intergovernmental	363,137	363,137	405,597	42,460
Fines and Forfeitures	3,227,000	3,227,000	2,716,495	(510,505)
Interest Earnings	-	-	344,933	344,933
Rental	10,700	10,700	5,738	(4,962)
Recoveries of Expenditures	986,170	986,170	813,673	(172,497)
Other	437,500	437,500	231,144	(206,356)
Transfers from Special Revenue Funds	149,860	149,860	149,860	-
Transfers from Electric Fund	9,621,062	9,621,062	10,074,623	453,561
Transfers from Water Fund	9,685,244	9,685,244	9,685,244	-
Transfers from Wastewater Fund	5,014,866	5,014,866	5,014,866	-
Transfers from Solid Waste	2,501,260	2,501,260	2,501,260	-
Transfers from Airport Fund	1,751,227	1,751,227	1,751,227	-
Transfers from Stormwater	2,628,757	2,628,757	2,628,757	-
Total Revenue	$ 169,251,609	$ 169,290,608	$ 170,265,389	$ 974,781
EXPENDITURES				
Administrative Services				
City Attorney	$ 2,132,154	$ 2,151,882	$ 2,121,797	$ 30,085
City Council	315,470	315,470	291,605	23,865
City Manager	1,092,458	1,101,629	1,235,860	(134,231)
City Secretary	1,242,117	1,252,214	1,198,690	53,524
Facilities Management	3,345,226	3,358,437	3,011,772	346,665
Finance	2,827,689	2,856,234	2,627,312	228,922
Human Resources	544,653	549,679	496,688	52,991
Internal Audit	392,733	397,535	221,288	176,247
Non-departmental	7,193,459	10,476,432	10,399,218	77,214
Public Information	507,992	512,645	505,200	7,445
Total Administrative Services	19,593,951	22,972,157	22,109,430	862,727

City of Lubbock, Texas
Required Supplementary Information
Mandatory Budgetary Comparison Schedule (Continued)
General Fund
For the Year Ended September 30, 2017

	Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance with Final Budget - Positive (Negative)
EXPENDITURES (Continued)				
Community Services*				
Building Inspection	$ 2,014,746	$ 2,035,361	$ 1,935,885	$ 99,476
Planning	682,956	689,435	703,361	(13,926)
Total Community Services	2,697,702	2,724,796	2,639,246	85,550
Cultural and Recreation Services				
Library	3,700,160	3,726,394	3,747,346	(20,952)
Museums	1,047,999	1,055,229	1,011,593	43,636
Parks	10,600,550	10,816,630	10,231,318	585,312
Total Cultural and Recreation Services	15,348,709	15,598,253	14,990,257	607,996
Public Works				
Engineering	1,364,931	1,379,742	1,217,229	162,513
Streets	3,094,923	3,118,153	2,429,462	688,691
Traffic	3,682,283	3,710,501	3,363,994	346,507
Total Public Works	8,142,137	8,208,396	7,010,685	1,197,711
Public Safety and Health Services				
Animal Services	2,039,799	2,055,105	1,955,884	99,221
Codes and Environmental Health	2,735,948	2,756,635	2,668,271	88,364
Fire	47,313,780	47,932,425	48,137,647	(205,222)
Municipal Court	1,866,524	1,925,490	1,743,099	182,391
Police	61,586,009	62,239,561	60,992,588	1,246,973
Public Health	968,791	976,021	876,331	99,690
Vector Control	515,004	518,582	518,649	(67)
Total Public Safety and Health Services	117,025,855	118,403,819	116,892,469	1,511,350
Transfers	6,211,899	8,388,159	8,364,259	23,900
Payroll Accrual/Other Adjustments	1,472,270	-	-	-
Total Expenditures	$ 170,492,523	$ 176,295,580	$ 172,006,346	$ 4,289,234
Revenues less expenditures	$ (1,240,914)	$ (7,004,972)	$ (1,740,957)	$ 5,264,015

*Building Inspection is included in "Other public safety" and Planning is included in "Economic and business development" on the General Fund Statement of Revenues, Expenditures and Changes in Fund Balance.

City of Lubbock, Texas
Required Supplementary Information
Mandatory Budget Comparison Schedule (Continued)
General Fund
For the Year Ended September 30, 2017

Explanation of Differences between Budgetary Revenues and Expenditures to the General Fund Statement of Revenues, Expenditures and Changes in Fund Balances - Revenues, Expenditures, and Other Financing Sources (Uses)

Revenues and Other Financing Sources	
Actual amounts (budgetary basis) "Total Revenue" from the Budget Comparison Schedule	$170,265,389
Adjustments:	
Proceeds from the issuance of debt are classified as other financing sources for GAAP reporting, but are not included in total revenue on the budget basis	10,066,596
Total general fund revenues and other financing sources as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	$180,331,985
Expenditures and Other Financing Uses	
Actual amounts (budgetary basis) "Total Expenditures" from the Budget Comparison Schedule	$172,006,346
Adjustments:	
Capital outlay that has or will be purchased from capital lease proceeds are classified as expenditures for GAAP reporting, but are not included in total expenditures on the budget basis	4,369,634
Total general fund expenditures and other financing uses as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	$176,375,980

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX C

EXCERPTS FROM LP&L'S ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED SEPTEMBER 30, 2017

[THIS PAGE INTENTIONALLY LEFT BLANK]

Annual Financial Report

Fiscal Years Ended September 30, 2017 and 2016

Lubbock Power & Light

The power is yours.

Annual Financial Report

For the Fiscal Years Ended September 30, 2017 and 2016

LP

Annual Financial Report
Elected, Appointed and Principal Officials

City Council

Daniel M. Pope	Mayor
Latrelle Joy	Mayor Pro Tem – District 6
Juan A. Chadis	Council Member – District 1
Shelia Patterson Harris	Council Member – District 2
Jeff Griffith	Council Member – District 3
Steve Massengale	Council Member – District 4
Karen Gibson	Council Member – District 5

Electric Utility Board

Greg Taylor	Chair
Don Boatman	Vice Chair
James Conwright	Secretary
Jerry Bell	Board Member
Jane U. Henry	Board Member
Daniel L. Odom	Board Member
Robert Rodriguez	Board Member
Gwen Stafford	Board Member
Vacant	Board Member
Daniel M. Pope	Ex-Officio Member

Principal Officials and Financial Management

David McCalla	Director of Electric Utilities
Richard Casner	General Counsel – LP&L
Andy Burcham	Assistant Director of Electric Utilities/CFO
Blair McGinnis	Chief Operating Officer
Chad Sales	Financial Planning and Analysis Manager

LP

Annual Financial Report
For the Fiscal Years Ended September 30, 2017 and 2016

Table of Contents

Lubbock Power and Light
City Electric System
Introduction
For the Years Ended September 30, 2017 and 2016

Lubbock Power and Light (LP&L) is pleased to present its Basic Financial Statements for the fiscal years ended September 30, 2017 and 2016. This report is published to provide the Electric Utility Board (Board), City of Lubbock (City), bondholders, rating agencies, representatives of financial institutions, and other interested parties detailed information concerning the financial condition of LP&L. The accompanying financial statements present only LP&L, and are not intended to fairly present the financial position or results of operations of the City.

LP&L operates the municipally owned electric utility and is an enterprise activity of the City. The Board, established on November 2, 2004, is appointed by the City Council and is empowered with the custody and management of LP&L operations. The City Council retains authority for approval of the annual budget, rates for electric service, eminent domain, and approval of debt financing.

LP&L management has prepared, and is responsible for, the financial statements and related information included in this report. Management believes that its policies and procedures provide guidance and reasonable assurance that LP&L operations are conducted according to management's intentions, and to a high standard of business ethics. In management's opinion, the financial statements present fairly, in all material respects, the net position, changes in net position, and cash flows of LP&L in conformity with accounting principles generally accepted in the United States of America.

BKD LLP
CPAs & Advisors

14241 Dallas Parkway, Suite 1100 // Dallas, TX 75254-2961
972.702.8262 // fax 972.702.0673 // bkd.com

Independent Auditor's Report

Board of Directors
Lubbock Power & Light
City of Lubbock, Texas

We have audited the accompanying basic financial statements of Lubbock Power & Light, an enterprise fund of the City of Lubbock, Texas, as of September 30, 2017 and 2016, and the related notes to the 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lubbock Power & Light, an enterprise fund of the City of Lubbock, Texas as of September 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Emphasis of Matters

As discussed in *Note 1 A*, the financial statements present only Lubbock Power & Light, and do not purport to, and do not, present fairly the financial position of the City of Lubbock, Texas, as of September 30, 2017 and 2016, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Required Supplementary Information

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

BKD, LLP

Dallas, Texas
February 8, 2018

INTRODUCTION

The following Management's Discussion and Analysis (MD&A) serves as an introduction to the financial statements of Lubbock Power & Light (LP&L). It is intended to be an objective and easily understandable analysis of significant financial and operating activities and events for the fiscal year ended September 30, 2017 (FY 2017), compared to the fiscal year ended September 30, 2016 (FY 2016). This MD&A has been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and should be read in conjunction with the audited financial statements and accompanying notes that follow.

BASIC FINANCIAL STATEMENTS

The financial statements report information about LP&L as a whole and are prepared using accrual accounting methods utilized by similar business activities in the private sector. LP&L's annual reporting period ends September 30th of each year.

Statement of Net Position: This statement includes LP&L's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. It also provides information about the nature and amount of assets and obligations (liabilities) of LP&L and provides the basis for the evaluation of LP&L's capital structure, liquidity, financial flexibility, and overall financial health.

Assets are separated into current and noncurrent categories and are reported in the order of liquidity. Current assets include unrestricted cash and cash equivalents, investments, net accounts receivable, interest receivable, prepayments, and inventories. Noncurrent assets include investments that have been restricted (by state laws, ordinances, or contracts), goodwill, prepayments, and net capital assets.

Deferred outflows of resources are a consumption of net assets by LP&L that are applicable to a future reporting period and are reported as a separate section following assets in the Statement of Net Position. LP&L's deferred outflows of resources include deferred charges on debt refundings and deferred outflows from pensions (contribution and investment expense).

Consistent with the reporting of assets, liabilities are segregated into current and noncurrent categories. Current liabilities include net accounts payable, accrued liabilities, accrued interest payable, due to related party (West Texas Municipal Power Agency, or WTMPA), customer deposits, compensated absences, and the current maturities of debt. Noncurrent liabilities include compensated absences, other postemployment benefits (OPEB), net pension obligation, and net long-term debt.

Deferred inflows of resources are an acquisition of net assets by LP&L that are applicable to a future reporting period and are reported as a separate section following liabilities in the Statement of Net Position. LP&L's deferred inflows of resources include deferred inflows from pensions. Both the deferred inflows and deferred outflows are reported in accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*

The components of net position are classified as net investment in capital assets, restricted, and unrestricted. An unrestricted designation indicates the net funds are available for operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

Statement of Revenues, Expenses, and Changes in Net Position: This statement presents the results of the business activities (revenues and expenses) over the course of the fiscal year and provides information about LP&L's recovery of costs. Operating revenues include charges for services, less a provision for bad debts. Operating expenses are presented by major cost categories, including personal services, supplies, maintenance, purchase of fuel and power, other services and charges, and depreciation and amortization. The remaining operating income is available to service debt, to fulfill City payment commitments, to finance capital expenditures, and to cover contingencies. Non-operating activities, which primarily relate to financing and investing, are reported separately. Other payments to the City and contributed capital are also reported separately as components of the change in net position.

Statement of Cash Flows: This statement presents cash receipts, cash disbursements, and net changes in cash resulting from operations, non-capital and related financing, capital and related financing, and investing activities.

Notes to the Financial Statements: The notes provide required disclosures and other detailed information that is essential to a full understanding of material data provided in the financial statements. The notes present information about LP&L's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events.

FINANCIAL HIGHLIGHTS

Purchased Power Pass-Through Rate Stability – In December 2013, the Electric Utility Board (Board) and the City Council passed an amendment to the LP&L Rate Tariff that provides for the recovery of all purchased power costs incurred by LP&L in serving system demand and energy requirements. The amendment adopted a seasonal purchased power recovery factor (PPRF), which is scheduled to be adjusted a minimum of two times per year: once at the beginning of the summer season on June 1, and once at the beginning of the non-summer season on October 1.

The PPRF was established with the intention of matching the pass-through revenues with actual purchased power costs over the course of a fiscal year, giving consideration to seasonal fluctuations in load and in purchased power prices. The amendment allows for the PPRF to be adjusted more frequently if any over- or under-recovery exceeds the pre-defined maximum variance.

A PPRF cap totaling five percent of total annual forecasted purchased power costs was established to manage any monthly over-recovery of purchased power costs. If at any time the cumulative over-collection balance is greater than the balancing account cap, a downward adjustment may be made to the PPRF with the intention of refunding the over-recovered amount. Additionally, a rate stabilization fund totaling $3.5 million was set aside to cushion any monthly under-recovery of purchased power costs. If at any time the cumulative under-collection balance draws down the rate stabilization fund, an upward adjustment may be made to the PPRF with the intention of replenishing the rate stabilization fund.

LP&L tracks actual revenues collected from the PPRF and compares these revenues to the actual purchased power costs incurred each month. The cumulative balance is reported to the Board on a monthly basis. As of September 30, 2017, the $6.0 million under-recovery from FY 2016 was partially recovered. Total purchased power revenues exceeded purchased power costs at fiscal year-end by approximately $1.2 million, improving the under-recovered amount to $4.8 million. The financial statements recognize the under-collection as an accounts receivable on the Statement of Net Position and incorporate the associated revenue on the Statement of Revenues, Expenses, and Changes in Net Position.

At the end of January 2017, the PPRF was under-collected $5.9 million, compared to the forecasted under-collection totaling $4.8 million. The larger than expected under-collection was a result of higher than expected fuel-related costs and the implementation of a transmission rate recovery mechanism in the Southwest Power Pool's (SPP) Integrated Marketplace (IM). Effective February 1, 2017, the Electric Utility Board voted on a mid-season rate adjustment to increase the energy and demand rates approximately 7.5% to replenish the PPRF reserves and bring cumulative purchased power revenues in alignment with purchased power costs.

In July 2017, Southwestern Public Service Company (SPS) performed its annual true-up calculation of costs from the previous calendar year. This true-up is allowed under their Federal Energy Regulatory Commission (FERC) form template and is also provided for in the total requirements contract between SPS and WTMPA. The true-up, totaling $2.5 million, was much larger than anticipated due to SPS' higher than expected costs and lower than expected energy sales volumes to spread those costs.

The $2.5 million true-up, in conjunction with the unexpected costs mentioned above, resulted in a $6.3 million under-collection by July 2017. In August and September 2017, $1.5 million was over-collected mainly as a result of higher average summer temperatures, resulting in a year-end under-collected balance totaling $4.8 million, as seen in the table below:

PPRF Fund (in millions)	**09/16**	**10/16**	**11/16**	**12/16**	**01/17**	**02/17**	**03/17**	**04/17**	**05/17**	**06/17**	**07/17**	**08/17**	**09/17**
Monthly Over/(Under)	$ -	$ 1.0	$ -	$ (2.1)	$ 1.2	$ 0.2	$ 0.1	$ (0.1)	$ 0.7	$ (0.5)	$ (0.8)	$ 1.7	$ (0.2)
Cumulative Over/(Under)	$ (6.0)	$ (5.0)	$ (5.0)	$ (7.1)	$ (5.9)	$ (5.7)	$ (5.6)	$ (5.7)	$ (5.0)	$ (5.5)	$ (6.3)	$ (4.6)	$ (4.8)

Base Rate Adjustment – Rates are set by the Board and approved by the City Council. On September 22, 2016, the City Council approved a 5.75 percent adjustment to LP&L's base rates, which became effective on October 1, 2016. The 5.75 percent base rate adjustment affected all rate classes, and was the amount necessary to meet the revenue requirements as calculated by the long-term financial model. The base rate adjustment impacted FY 2017 revenues in the amount of $4.1 million, as anticipated in the FY 2017 operating budget.

Unit Contingent / Power Marketing – LP&L operates the Cooke Station under a unit contingent agreement (UCA) with SPS, which continues until 2019. Additionally, LP&L contracts with a power marketing company (PMC) to register the Brandon and Massengale units in the PMC's portfolio. The agreement allows the PMC to manage and procure the natural gas needed to operate the Brandon and

Massengale units and allows the PMC to bid the units into the SPP IM on LP&L's behalf since LP&L is not a registered member of SPP.

In FY 2017, the total revenue produced by the LP&L generating units was $4.6 million, compared to $3.6 million in FY 2016. Of the $4.6 million, power marketing activities produced $4.2 million in revenue, and the SPS UCA payments produced $0.4 million in revenue. Power marketing revenues increased $1.2 million primarily due to changes in the availability of the units that made them more appealing to the market, thus the units ran more frequently in FY 2017 compared to FY 2016.

The SPS UCA payments decreased from $0.7 million in 2016 to $0.4 million in 2017. SPS continued to make capacity payments totaling $2,120 per megawatt each month and energy payments totaling $3.50 per megawatt hour for the Cooke Station Gas Turbines (GT) #2 and #3. GT3 experienced an unplanned outage for the entirety of the fiscal year, which resulted in a reduction of 17MW of capacity related payments from SPS. Additionally, in FY 2016, SPS and LP&L mutually agreed to place the Cooke Station steam units into cold storage until they are potentially needed after the total requirements contract with SPS ends in June 2019. Due to the cold storage of the steam units for the full fiscal year, the capacity payments were lower than the prior fiscal year. Energy payments at Cooke station also decreased in 2017 as a result of the limited operations.

Capital Program – A total of 37 new capital projects and 19 existing capital projects were funded during FY 2017, totaling $32.3 million. The blend of funding sources used for these projects was composed of 47.8 percent equity and 52.2 percent debt. The blend of financing is reviewed annually to determine if any adjustments are necessary, but is set at 35 percent equity and 65 percent debt in the financial model over the 5-year planning horizon. The significant projects funded during the fiscal year included underground electric lines, totaling $3.8 million; distribution transformers, totaling $2.6 million; customer service information systems, totaling $2.0 million; 115 kV line construction from the Northwest substation to the Mackenzie substation, totaling $1.9 million; transmission and distribution grid information system, totaling $1.8 million; overhead electric lines, totaling $1.8 million; purchase of vehicles and equipment, totaling $1.7 million; Slaton substation rebuild, totaling $1.7 million; and Holly substation rebuild, totaling $1.5 million.

A total of 33 capital projects, totaling $27.1 million, were completed and closed in FY 2017 and were moved from construction in progress to appropriate capital asset categories. The appropriation for these projects totaled $35.6 million, therefore these projects were completed under budget in the amount of $8.5 million. The significant projects completed in FY 2017 included:

- Tie Line Transformer Replacement ($5.5 million) – the purchase of a 200 megavolt-amper (MVA) transformer to replace the existing 100 MVA transformer on the tie line between Cooke Station and SPS' Jones Station. The new transformer allows LP&L to import more electricity.
- Brandon Outage ($3.5 million) – upgrade of critical valves, hand rails, catwalks, platforms, and a hot section overhaul.
- 2015-16 Distribution Transformers ($2.5 million) – the purchase of overhead transformers, pad mount transformers, switches, and enclosures used to upgrade capacity and to serve new customers.
- Other notable projects included 2015-16 Underground Electric Lines ($2.3 million), Milwaukee Substation Autotransformer ($2.0 million), Indiana Avenue Underground Cable Replacement ($1.8 million), 2015-16 Overhead Electric Lines ($1.7 million), 2016-17 Overhead Electric Lines

($1.8 million), 2015-16 Vehicles and Equipment ($1.7 million), and Substation Breaker Replacements ($1.1 million).

Debt Issuance – In FY 2017, LP&L issued $17.8 million in revenue bonds. The Bonds that were issued funded capital projects in the FY 2017 Capital Program. The Bonds were issued at a premium totaling $2.1 million and the true interest cost for this issuance was 3.60 percent. The City also issued General Obligation Refunding Bonds, with LP&L's share being approximately $3.2 million. The Bonds were issued at a premium totaling $0.4 million and a deferred loss totaling $35,551. The refunding transaction resulted in decreased total debt service requirements with over 13.86 percent savings on the refunded bonds. The true interest cost for this issuance was 2.47 percent.

Meter Growth – LP&L's meter base totaled 105,788 and 104,103 meters at September 30, 2017 and 2016, respectively. The 2017 meter increase of 1.62 percent is approximately one percent higher than normal growth primarily due to the addition of several new apartment complexes that added new meters during the fiscal year within LP&L's certificated area.

RESULTS OF OPERATIONS

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	2017	2016	2015
Program revenues			
Charges for services	$ 243,928,151	$ 222,951,614	$ 221,215,135
General revenues			
Investment earnings	625,337	491,350	403,267
Other revenues (expenses)	(1,522,772)	(1,586,601)	(1,509,618)
Total revenues	243,030,716	221,856,363	220,108,784
Program expenses (including interest)	215,207,837	199,270,009	200,122,394
Contributions	28,879	85,741	44,621
Excess before transfers	27,851,758	22,672,095	20,031,011
Transfers	(15,886,361)	(14,757,142)	(14,779,263)
Change in net position	11,965,397	7,914,953	5,251,748
Net position, beginning of year *	176,627,535	168,712,582	163,460,834
Net position, end of year	**$ 188,592,932**	**$ 176,627,535**	**$ 168,712,582**

* Restated beginning net position for FY 2015 due to change in GASB pronouncements. See Other Changes in Net Position in the Management Discussion and Analysis.

Total Revenues and Non-Operating Income

FY 2017 – Program revenues totaled $243.9 million, representing a 9.41 percent increase from FY 2016. The following is a breakdown of program revenues by major category:

Revenues	2017	2016	Change
General Consumers Metered	$ 235,914,771	$ 216,142,337	$ 19,772,434
Power Mkt / Unit Contingent	4,617,475	3,622,566	994,909
Fees, Charges, and Other	4,286,726	3,954,135	332,591
Uncollectible Accounts	(890,821)	(767,424)	(123,397)
Total	$ 243,928,151	$ 222,951,614	$ 20,976,537

The primary driver of program revenues was an increase of $19.8 million in metered revenues. Increased PPRF rates to cover increased purchased power costs contributed $14.5 million of the metered revenue increase. The base rate adjustment of 5.75 percent that became effective on October 1, 2016 also increased metered revenues $4.1 million. Revenues from the franchise fee equivalent (FFE) were higher in the amount of $1.1 million as a result of the higher PPRF and base rate revenues. For more detail on the breakdown of metered revenues, see the table below.

Metered Revenues	2017	2016	Change
Base Rates	$ 64,581,198	$ 60,435,719	$ 4,145,479
Purchased Power	160,688,685	146,186,549	14,502,136
Franchise Fee Equivalent	10,644,888	9,520,069	1,124,819
Total	$ 235,914,771	$ 216,142,337	$ 19,772,434

Power marketing/unit contingent revenues provided an additional increase in revenues totaling $1.0 million and increases in reconnect fees and late charges drove revenues higher in the amount of $0.3 million. Offsetting the increased revenue was an increase in uncollectible accounts as a result of higher charge-offs from FY 2013-14.

Non-operating income was mainly comprised of investment earnings. Investment earnings increased from $0.5 million in FY 2016 to $0.6 million in FY 2017, or 27.3 percent, as a result of the Federal Reserve raising the fed funds target rate by 75 basis points during 2017.

FY 2016 – Program revenues totaled $223.0 million, representing a 0.78 percent increase from FY 2015. The following is a breakdown of program revenues by major category:

Revenues	2016	2015	Change
General Consumers Metered	$ 216,142,337	$ 214,564,752	$ 1,577,585
Power Mkt / Unit Contingent	3,622,566	3,174,821	447,745
Fees, Charges, and Other	3,954,135	4,135,273	(181,138)
Uncollectible Accounts	(767,424)	(659,711)	(107,713)
Total	$ 222,951,614	$ 221,215,135	$ 1,736,479

The primary driver in program revenues was an increase of $1.6 million in metered revenues. The increase in metered revenues was related to the 5.75 percent base rate adjustment that became effective on October 1, 2015 and was partially offset by the decreased PPRF rates necessary to refund the $2.2 million over-collection of PPRF revenues in FY 2015. The base rate adjustment was also offset by lower revenues to cover reduced purchased power costs as a result of lower natural gas prices and the intentional under-collection of purchased power revenues from February through September 2016.

An additional increase in program revenue was due to higher power marketing/unit contingent revenues. Offsetting the increased revenue were decreases in other charges that were driven by lower meter reconnect fees and fewer street light installations during the fiscal year. The uncollectible accounts expense increased as a result of larger charge-offs from FY 2012-13.

Non-operating income was mainly comprised of investment earnings. Investment earnings increased from $0.4 million in FY 2015 to $0.5 million in FY 2016, or 21.8 percent, as a result of the Federal Reserve raising the fed funds target rate by 25 basis points in December 2015

Operating Expenses

FY 2017 - Program expenses, excluding interest expense, were $212.5 million, representing an 8.9 percent increase from FY 2016. The cost of purchased fuel and power, totaling $162.3 million, represented 76.4 percent of total program expenses and increased $16.5 million from FY 2016. The breakdown of purchased power costs are shown below:

Purchased Power Costs	2017	2016	Change
Fuel	$ 80,657,601	$ 70,689,339	$ 9,968,262
Transmission	24,356,993	21,625,070	2,731,923
Demand	46,113,253	40,585,944	5,527,310
Energy	11,208,560	12,955,834	(1,747,274)
Total	$ 162,336,407	$ 145,856,186	$ 16,480,221

- Fuel costs increased $10.0 million and are highly correlated to natural gas prices. Natural gas prices averaged $2.37 per one million British thermal units (MMBtu) during FY 2016 and $3.13 per MMBtu during FY 2017.
- Transmission costs were $2.7 million higher during FY 2017. $1.1 million of the $2.7 million increase was a result of an implementation of a transmission rate recovery mechanism in the SPP IM. The remaining transmission cost increase was attributable to increased regional and zonal transmission costs paid to SPP and to slightly higher volume usage by the LP&L system.
- Demand costs were $5.5 million higher in FY 2017 primarily due to a higher average demand rate from SPS and a slightly higher volume usage by the LP&L system; the average rate in FY 2016 was $6.84/kW compared to $7.45/kW in FY 2017.
- Energy costs were down $1.7 million in FY 2017. The decrease was primarily a result of a lower annual energy true-up from SPS offset by a higher energy rate. The energy portion of the true-up decreased $2.8 million while the higher energy rate increased costs in the amount of $1.1 million.

Program expenses, excluding purchased power costs and interest expense, totaled $50.2 million, an increase of $0.8 million, or 1.7 percent, compared to FY 2016. The increase was made up of $0.3 million in personal services, $0.1 million in supplies, $0.3 million in maintenance, and $1.6 million in other services and charges, offset by a $1.5 million decrease in depreciation and amortization. The decrease in depreciation and amortization expenses was primarily caused by assets acquired from SPS in 2010 that fully depreciated in FY 2016. Depreciation also decreased in FY 2017 due to a change in the useful lives of the capital assets. During the FERC asset evaluation study in FY 2016, as discussed in the section titled "Capital Assets, Net", the capital assets were compared to industry standards and were changed to reflect those standards. The change also brought a standard of uniformity to the capital assets that had not existed prior to the change. The change in useful lives was completed near the end of FY 2016 and had a minor impact on the financial statements. FY 2017 reflected a full year's worth of depreciation and amortization based on the new useful lives.

Personal services increased $0.3 million in FY 2017. Pension expenses were $0.3 million higher and payroll-related personal services were $0.7 million higher due to increased terminal pay for three long-term employees, mid-year raises for meter readers, and engineers allocating more labor to operations and maintenance compared to FY 2016; offsetting these increases was a $0.7 million decrease in other postemployment benefits related to positive changes in the health benefits plan. For more details on the health benefit plan changes, see Note 9: Other Postemployment Benefits. For more detail on the pension expenses, see Note 8: Retirement Plan. Supplies increased $0.1 million primarily due to higher invoice printing costs related to printer downtime, higher uniform costs, and higher safety supplies; offset by lower chemical costs at Cooke Station. Maintenance increased $0.3 million due to higher maintenance costs for underground and overhead infrastructure, slightly offset by lower maintenance costs for production infrastructure. Other Services and Charges increased as a result of legal and engineering services related to the ERCOT integration, remediation expenses at Cooke Station as discussed in Note 15: Site Remediation, and hydrogen cooling and engineering services at Massengale station.

FY 2016 – Program expenses, excluding interest expense, were $195.2 million, representing a 0.5 percent decrease from FY 2015. The cost of purchased fuel and power, totaling $145.9 million, represented 74.7 percent of total program expenses and decreased $1.6 million from FY 2015. The decline was due to decreased fuel costs, which are highly correlated to natural gas prices. Natural gas prices averaged $3.15 per one million British thermal units (MMBtu) during FY 2015 and $2.36 per MMBtu during FY 2016. Although fuel costs were down significantly in 2016, the savings were offset by higher transmission and energy costs in the SPP IM, as shown below:

Purchased Power Costs	2016	2015	Change
Fuel	$ 70,689,339	$ 79,440,733	$ (8,751,394)
Transmission	21,625,070	18,071,532	3,553,538
Demand	40,585,944	40,558,784	27,160
Energy	12,955,834	9,425,608	3,530,226
Total	$ 145,856,186	$ 147,496,656	$ (1,640,470)

Program expenses, excluding purchased power costs and interest expense, totaled $49.3 million, an increase of $0.7 million, or 1.6 percent, compared to FY 2015. The increase was made up of $1.4 million in personal services and $0.4 million in other services and charges, offset by a $0.7 million decrease in maintenance, $0.3 million decrease in depreciation and amortization, and a $0.1 million decrease in supplies.

Personal services expense increased due to a $1.5 million rise in pension expense as a result of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. For more details, see "Note 8: Retirement Plan" in the Notes to the Financial Statements. This category was also up due to a $0.2 million increase in other post-employment benefits (OPEB) related to assumption changes in the investment rate of return from 4.25 percent to 3.75 percent. This change in the investment rate of return increased the annual required contribution (ARC) and associated OPEB liabilities that are actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* For additional information, see "Note 9: Other Post-Employment Benefits (OPEB)" in the Notes to the Financial Statements. These two increases were offset by a $0.3 million decrease in benefits, which included a $0.1 million decrease in health and dental premiums and a $0.2 million decrease in TMRS contributions.

Other Services and Charges increased as a result of consulting costs for the FERC asset evaluation study, as discussed in the section titled "Capital Assets, Net", and for legal and engineering services related to the 2019 ERCOT integration. Maintenance decreased due to lower maintenance costs for underground and overhead infrastructure compared to the previous fiscal year.

Non-Operating Expenses and Transfers

FY 2017 - Interest and debt-related expense decreased from FY 2016 in the amount of $1.4 million due to the timing of the amortization of premiums, discounts, and deferred items. These items are amortized based on the effective interest method of a given outstanding debt issuance. The amortization of premiums, discounts, and deferred items can fluctuate related to balances of the debt instruments and the remaining balances of the premiums, discounts, and deferred items.

Miscellaneous expense decreased approximately $0.5 million due to a $0.2 million decrease in street light transfers to the City and a $0.4 million decrease in miscellaneous capital project expenditures offset with lower rental income totaling $0.1 million. In FY 2017, $1.2 million was expensed in relation to the calculated FY 2016 and FY 2017 customer account credits that are anticipated to be due to TTUS as a result of the contract claim negotiations. The FY 2017 amount is nearly equivalent to the FY 2016 accrued expense of $1.2 million that was also recorded as a result of the contract claim with TTUS. The net effect of these entries on miscellaneous expense, between FY 2016 and FY 2017, was negligible.

Disposition of assets increased approximately $0.5 million. The increase was caused by a number of assets, mainly consisting of aged emissions monitoring systems at Cooke Station, which were disposed at a loss.

Net transfers increased $1.1 million, up from $14.8 million in FY 2016. The transfers are comprised of a payment to the City in lieu of property tax, totaling $2.3 million; a payment to the City as a franchise fee equivalent, totaling $11.3 million; an indirect cost allocation transfer to the City to cover certain administrative costs, totaling $1.0 million; payments to WTMPA for an indirect cost allocation totaling $1.4 million; offset by a transfer-in totaling $0.1 million from the Water fund for the reimbursement of personnel costs incurred by LP&L for dispatch services. The increase is primarily due to the increase in metered revenues that increased the franchise fee equivalent and the payment to the City in lieu of property tax.

FY 2016 – Interest and debt-related expense was unchanged from FY 2015, at $4.1 million. Miscellaneous expense totaling $1.6 million decreased approximately $0.1 million due partially to an accrued expense totaling $1.2 million recorded in relation to a contract claim with the Texas Tech University System (TTUS), compared to $1.6 million that was recorded in FY 2015 for the claim. Both entries were booked in accordance with sections 102-104 of GASB statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. For more details, see "Note 14: Litigation" in the Notes to the Financial Statements. The $0.4 million decrease in expense from contract claims was offset by a $0.2 million increase in street light transfers to the City and a $0.1 million increase in miscellaneous capital project expenditures.

Disposition of assets decreased approximately $0.1 million, resulting in an expense on the Statement of Revenues, Expenses, and Changes in Net Position, compared to a small revenue in FY 2015. This increased expense was caused by an increase in the amount of assets disposed at a loss that exceeded the amount of junk sales and recycled scrap material revenue recorded during FY 2016.

Net transfers remained at $14.8 million, showing only a slight decrease of 0.2 percent from FY 2015. The transfers are comprised of a payment to the City in lieu of property tax, totaling $2.1 million; a payment to the City as a franchise fee equivalent, totaling $10.3 million; an indirect cost allocation transfer to the City to cover certain administrative costs, totaling $1.1 million; payments to WTMPA for management and administrative services, totaling $1.4 million; offset by a transfer-in totaling $0.1 million from the Water fund for the reimbursement of personnel costs incurred by LP&L for dispatch services and the grant fund for the Federal Emergency Management Administration (FEMA) reimbursements related to winter storm Goliath.

Other Changes in Net Position

FY 2017 - Net position for the years ended September 30, 2017 and 2016 was $188.6 million and $176.6 million, respectively.

FY 2017 income before contributions and transfers, totaling $27.8 million, was $5.2 million higher than the FY 2016 net income due to the $21.0 million increase in operating revenues and the $1.5 million net decrease in non-operating expenses offset by the $17.3 million increase in operating expenses. The operating revenue increase is detailed in the section titled "Total Revenues and Non-operating Income", the net decrease in non-operating expenses is detailed in the section titled "Non-Operating Expenses and Transfers", and the increase in operating expenses is detailed in the section titled "Operating Expenses".

Net transfers, totaling $15.9 million, are deducted from net income to provide the total change in net position. LP&L's change in net position was a gain of $12.0 million compared to a gain of $7.9 million in FY 2016, reflecting an increase of $4.1 million in income when contributions and transfers are included.

FY 2016 – Net position for the years ended September 30, 2016 and 2015 was $176.6 million and $168.7 million, respectively.

FY 2016 income before contributions and transfers totaling $22.6 million was $2.6 million higher than the FY 2015 net income totaling $20.0 million due to the $0.9 million decrease in operating expenses and the $1.7 million increase in operating revenues. The change in operating expenses is detailed in the section titled "Operating Expenses" and the change in operating revenues is detailed in the section titled "Total Revenues and Non-operating Income".

Net transfers, totaling $14.8 million, are deducted from net income to provide the total change in net position. LP&L's change in net position was a gain of $7.9 million compared to a gain of $5.2 million in FY 2015, reflecting an increase of $2.7 million in income when contributions and transfers are included.

FINANCIAL POSITION

Condensed Statements of Net Position

	2017	2016	2015
Assets:			
Current assets	$ 102,917,610	$ 97,339,519	$ 95,254,290
Capital assets, net	221,115,360	222,243,250	220,227,317
Noncurrent investments	46,994,423	33,405,967	34,207,586
Goodwill	796,812	1,062,510	1,328,208
Prepaid expenses	1,611,109	1,744,443	1,877,776
Total assets	373,435,314	355,795,689	352,895,177
Deferred outflows of resources	8,164,326	10,022,950	4,729,928
Liabilities:			
Current liabilities	46,561,417	44,674,388	43,924,857
Noncurrent liabilities	145,839,744	143,610,556	144,192,335
Total liabilities	192,401,161	188,284,944	188,117,192
Deferred inflows of resources	605,547	906,160	795,331
Net position:			
Invested in capital assets, net of related debt	129,981,725	118,531,721	112,362,525
Restricted	10,354,109	10,392,293	10,254,840
Unrestricted	48,257,098	47,703,521	46,095,217
Total net position	**$ 188,592,932**	**$ 176,627,535**	**$ 168,712,582**

Current Assets

FY 2017 - Current assets at September 30, 2017, totaling $102.9 million were $5.6 million higher than the balance at September 30, 2016, mainly due to a $7.4 million increase in investments, a $3.8 million increase in accounts receivable, and a $0.3 million increase in inventory. The increases were offset by a decrease of $4.7 million in cash and cash equivalents and $1.2 million decrease in the purchased power under-collection.

Cash and cash equivalents decreased $4.7 million mainly due to the outflow of cash related to investing activities and increased transfers-out, offset by additional cash inflows as a result of the October 1, 2016 base rate adjustment, increased cash inflows related to higher PPRF rates to recover the under collected PPRF balance from FY 2016, and lower cash outflows related to lower capital investment.

The $2.6 million increase in accounts receivable was driven by increased customer charges due to the increased cost of purchased power offset by the reduction of the under-collection of purchased power expenses totaling $1.2 million as further discussed in the "Financial Highlights" section.

The $2.6 million increase in accounts receivable was driven by increased customer charges due to the increased cost of purchased power offset by the reduction of the under-collection of purchased power expenses totaling $1.2 million as further discussed in the "Financial Highlights" section.

Receivables		2017		2016		Change	% Change
PPRF Receivables	$	4,781,761	$	6,011,465	$	(1,229,704)	-20.46%
Non-PPRF Receivables		29,155,894		25,347,371		3,808,523	15.03%
Change in Non-PPRF Receivables	$	33,937,655	$	31,358,836	$	2,578,819	8.22%

FY 2016 – Current assets at September 30, 2016, totaling $97.3 million were $2.1 million higher than the balance at September 30, 2015, mainly due to a $2.6 million increase in accounts receivable. This increase was driven by the under-collection of purchased power expenses, totaling $6.0 million, that was recorded as a receivable on the Statement of Net Position, as mentioned in the "Financial Highlights" section. The $6.0 million increase in receivables was offset by a $3.4 million decrease in the remaining non-PPRF receivable accounts due to the lower PPRF revenues put into effect from February to September 2016, as discussed in the section titled "Total Revenues and Non-Operating Income". Therefore, the decreased revenues affected accounts receivables accordingly:

Receivables		2016		2015		Change	% Change
PPRF Receivables	$	6,011,465	$	-	$	6,011,465	-
Non-PPRF Receivables		25,347,371		28,738,556		(3,391,185)	-11.80%
Change in Non-PPRF Receivables	$	31,358,836	$	28,738,556	$	2,620,280	9.12%

Cash and cash equivalents increased $1.2 million due to increased cash from operating and investing activities, offset by higher capital investments compared to the previous fiscal year. The operating cash increased as a result of lower payments to suppliers and lower payments to employees, offset by lower receipts from customers. The decrease in receipts from customers was slightly offset by the base rate adjustment of 5.75 percent that went into effect October 1, 2015.

The increases for cash and accounts receivable were offset by a $1.6 million decrease in investments and a slight reduction in inventories, totaling $0.1 million.

Noncurrent Assets

FY 2017 - Noncurrent restricted assets totaled $49.4 million at September 30, 2017, an increase of $13.2 million compared to September 30, 2016. The increase was largely attributable to proceeds from the issuance of $17.8 million in bonds in August 2017.

FY 2016 – Noncurrent restricted assets totaled $36.2 million at September 30, 2016, a decrease of $1.2 million compared to September 30, 2015. The decrease was largely attributable to the decrease in restricted investments as a result of the expenditure of LP&L bond proceeds from the Series 2016 and Series 2015 issuance.

Capital Assets, Net

FY 2017 - At September 30, 2017, net capital assets totaling $221.1 million decreased $1.1 million from $222.2 million at September 30, 2016, due to depreciation outpacing capital spending for the acquisition and development of capital assets. Net capital assets have been relatively constant due to the stability of LP&L's certificated area and are mainly comprised of generating units, substations, electric meters, and distribution and transmission lines.

FY 2016 – At September 30, 2016, net capital assets totaling $222.2 million increased $2.0 million from $220.2 million at September 30, 2015, due to the acquisition and development of capital assets.

In April 2016, an asset evaluation study was completed to convert LP&L's fixed asset records to the FERC Uniform System of Accounts (USOA). The intent of the FERC USOA conversion was to ultimately file a Transmission Cost of Service (TCOS) rate with the Public Utility Commission of Texas (PUC). This rate filing would be in conjunction with the anticipated ERCOT integration that is discussed in detail in the section titled "Future Power Supply", and would ultimately provide a return on LP&L's transmission assets.

Before the FERC conversion, LP&L recorded its plant investment using a chart of accounts with the following categories:

Land
Buildings
Improvements Other Than Buildings
Machinery & Equipment

A logical and reasonable methodology was used to convert LP&L's capital investments and accumulated depreciation to appropriate FERC accounts in order to support a future TCOS filing. The first step was to sort the assets into plant categories, using the fixed asset records provided by LP&L as of September 30, 2015. Wherever possible, plant investment and accumulated depreciation was directly assigned to the proper FERC accounts based on the existing account number, business unit, equipment code, and description, including the production and general plant accounts. An allocation approach was utilized for substations and overhead lines based on the results of the cost of study approach developed by NewGen Strategies & Solutions, LLC (NewGen) and its sub consultant, Exponential Engineering Company (EEC) to estimate the theoretical original cost of the asset by FERC plant account. This analysis was necessary to separate LP&L's book investment between the transmission and distribution functions.

EEC first estimated the replacement cost new (RCN) of LP&L's transmission and distribution assets on an order of magnitude basis for typical construction in LP&L's service area by plant account. A representative sample of transmission and distribution line facilities and substations was observed by EEC, then data derived from LP&L's GIS system was analyzed. Substation line drawings were also reviewed to estimate the inventory and RCN value of facilities in LP&L's system by FERC plant account. The installation year for each transmission line segment and substation was provided by LP&L and used to estimate the age of the distribution facilities based on the age of the substation RCN by installation decade. NewGen then estimated the original cost of the facilities, by FERC account, based on the age of the assets. The Handy Whitman Index of Public Utility Construction

Cost was used to trend the RCN values back to their estimated year of installation, which established the "theoretical" gross plant balances by FERC account.

The total actual gross plant and accumulated depreciation balances for substations and overhead lines were then allocated on LP&L's books to the appropriate FERC accounts based on the "theoretical" original cost by FERC account developed in the preceding steps above. The total allocated balances for these FERC accounts were then spread back to the estimated year of installation based on the relative age of the historical plant balance in substations and overhead line investment. The beginning total gross plant and accumulated depreciation balances shown in the new FERC account fixed asset records are equal to the total gross plant and accumulated depreciation balances shown on the original fixed asset records as of September 30, 2015.

The production plant accounts were assigned based on the expertise of the Production Superintendent, and the general plant accounts were directly assigned based on the descriptions and equipment codes in the existing fixed asset records.

The fixed asset conversion into FERC categories was officially complete as of August 2016. While the construction in progress line item remained the same, all other existing capital asset categories were converted into the following categories:

Intangible Plant
Production Plant
Transmission Plant
Distribution Plant
Regional Transmission and Market Operation Plant
General Plant

The useful life of each asset is estimated as follows:

Intangible Plant	6-45 years	Production Plant	1-50 years
Transmission Plant	30-60 years	Distribution Plant	6-50 years
Regional Transmission and Market Operation Plant	5 years	General Plant	2-45 years

Current Liabilities

FY 2017 - Excluding current maturities of debt totaling $15.9 million, current liabilities increased $1.2 million, from $29.5 million at September 30, 2016, to $30.6 million at September 30, 2017. The increase was related to higher accrued liabilities, due to related party liability, and compensated absences, offset by lower accounts payable, accrued interest, and customer deposits.

Accrued liabilities increased $1.8 million with $1.2 million related to accrued liabilities associated with pending customer account credits with TTUS. The remaining $0.6 million is comprised of $0.3 million for environmental remediation at Cooke Station and $0.3 million in accrued liabilities for routine payables. The due to related party liability increased $0.4 million due to additional amounts owed to WTMPA as a result of higher purchased power costs in September 2017, compared to September 2016. Compensated absences increased $0.1 million due to an approximate five percent increase in actual vacation and sick accruals between FY 2016 to FY 2017. The increase impacted both the short and long-term portions of the compensated absences liability. Bonds payable increased due to the new issuance that occurred in late FY 2017.

The decline in accounts payable, totaling $0.4 million, was related to a decrease in vouchers payable related to a decline in capital expenditures in FY 2017. The decrease in accrued interest payable, totaling $0.3 million, was related to the change in the accounting of premiums and discounts as discussed in the Non-Operating Expenses and Transfers section. The decrease in customer deposits was due to deposit refunds, totaling $1.1 million, related to the deposit refund program that became effective in October 2015, offset by deposits for new customers totaling $0.7 million. The deposit refund program automatically refunds customers their initial deposit if they meet certain requirements, such as excellent credit, current account status, and a minimum one-year customer status. Under the terms of the deposit refund program, LP&L refunded 7,511 deposits in FY 2017.

FY 2016 – Excluding current maturities of debt totaling $15.2 million, current liabilities decreased $0.2 million, from $29.7 million at September 30, 2015, to $29.5 million at September 30, 2016. This decrease was caused by a $1.8 million decline in customer deposits and a $1.4 million decline in accounts payable, offset by increases in accrued liabilities and the due to related party line item, totaling $3.0 million. The decline in customer deposits was caused by the deposit refund program that became effective in October 2015. Under the terms of the deposit refund program, LP&L refunded 16,371 deposits for a total of approximately $2.5 million in FY 2016. Offsetting the $2.5 million in deposit refunds was $0.7 million in deposits for new customers. The decline in accounts payable was related to a $2.2 million collection of metered revenues that exceeded actual purchased power expenses in FY 2015, offset by an increase in vouchers payable relating to an increase in capital project expenditures.

Offsetting the decreased customer deposits and accounts payable balances was a $1.7 million increase in the due to related party line item and a $1.3 million increase in accrued liabilities. The increase in the due to related party line item was related to additional amounts owed to WTMPA as a result of increased fuel cost adjustments for September 2016, compared to September 2015. The increase in accrued liabilities was related to the accrued legal expense totaling $1.2 million that was recorded in May 2016 in relation to a contract dispute with TTUS.

Other Noncurrent Liabilities

FY 2017 - Excluding the noncurrent portion of debt totaling $112.6 million, long-term liabilities increased $0.7 million to $33.3 million at September 30, 2017. This increase was driven by a $0.6 million increase in other postemployment benefits (OPEB) and a $0.1 million increase in net pension obligation.

The OPEB increase from FY 2016 to FY 2017 was approximately half of the increase from FY 2015 to FY 2016. The City made changes to the benefit plans for employees and retirees during the FY 2017-18 budget process that had a positive impact on the OPEB calculation for FY 2017. Beginning in calendar year 2018, the following changes to the health benefits plan will be implemented: post-65 retirees will no longer be included in the health benefit plan but will be given a $150/month stipend to supplement the cost of choosing a Medicare plan; employees will begin paying $20/month towards their healthcare premiums; deductibles and co-pays will be increased; and the City's health benefit plan will no longer be grandfathered under the Affordable Care Act. See "Note 9: Other Postemployment Benefits" in the Notes to the Financial Statements for more details.

FY 2016 – Excluding the noncurrent portion of debt totaling $111.1 million, long-term liabilities increased $7.4 million to $32.5 million at September 30, 2016. This increase was primarily related to an increase in the Net Pension Liability totaling $6.2 million that corresponded to a decrease in the discount rate from 7.0 percent in FY 2015 to 6.75 percent in FY 2016. See "Note 8: Retirement Plan" in the Notes to the Financial Statements for more details. The remaining $1.2 million variance in long-term liabilities was related to a $1.3 million increase in other postemployment benefits (OPEB), offset by a $0.1 million decrease in compensated absences.

LONG-TERM DEBT

FY 2017 - As of September 30, 2017, LP&L's total outstanding debt was $128.5 million. Bonds payable was composed of $33.0 million in certificates of obligation, $84.7 million in revenue bonds, and $10.8 million in net deferred losses on advanced refundings, bond premiums and discounts, and bond issuance costs. All outstanding debt is comprised of fixed interest rate instruments.

New Issuance – In August 2017, LP&L issued $17.7 million Electric Light and Power Revenue Bonds, Series 2017. The true interest cost for this issuance, which has maturities in 2017 through 2047, is 3.60 percent. Bond proceeds were issued for the purposes of acquiring, purchasing, constructing, improving, renovating, enlarging, and/or equipping property, buildings, structures, facilities, and/or related infrastructure for LP&L's system.

Advance Refunding – In November 2016, the City issued approximately $36.8 million General Obligation Refunding Bonds, Tax-Exempt Series 2016A, with LP&L's portion being approximately $3.2 million. This refunding transaction resulted in decreased total debt service requirements and a 13.86 percent savings on the refunded bonds. The true interest cost for this issue, which consists of serial bonds with maturities in 2016 through 2034, is 2.47 percent.

Reductions – In addition to the refunding described above, that resulted in a reduction in long-term debt outstanding, LP&L made principal payments totaling $10.8 million on its revenue bonds and $4.5 million on its certificates of obligation.

FY 2016 – At September 30, 2016 LP&L's total outstanding debt was $126.3 million. Bonds payable was composed of $37.8 million in certificates of obligation, $77.7 million in revenue bonds, and $10.8 million in net deferred losses on advanced refundings, bond premiums and discounts, and bond issuance costs. All outstanding debt is comprised of fixed interest rate instruments.

New Issuance – In April 2016, LP&L issued $7.5 million Electric Light and Power Revenue Bonds, Series 2016. The true interest cost for this issuance, which has maturities in 2016 through 2046, is 3.04 percent. Bond proceeds were issued for the purposes of acquiring, purchasing, constructing, improving, renovating, enlarging, and/or equipping property, buildings, structures, facilities, and/or related infrastructure for LP&L's system.

Advance Refunding – In April 2016, the City issued approximately $26.7 million General Obligation Refunding Bonds, Tax-Exempt Series 2016, with LP&L's portion being approximately $3.1 million. This refunding transaction resulted in decreased total debt service requirements and an 11.78 percent savings on the refunded bonds. The true interest cost for this issue, which consists of serial bonds with maturities in 2016 through 2034, is 2.41 percent.

Reductions – In addition to the refunding described above that resulted in a reduction in long-term debt outstanding, LP&L made principal payments totaling $10.1 million on its revenue bonds and $4.2 million on its certificates of obligation.

CURRENTLY KNOWN FACTS

Future Power Supply – In total, LP&L serves approximately 600MW of load – consisting of more than 100,000 customers – in and around Lubbock. A transaction agreement for total requirements power service between 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 15-year agreement is through the hour ending at midnight on May 31, 2019, unless cancelled earlier.

Beginning on June 1, 2019, LP&L will be served by a 170MW SPS partial requirements power purchase agreement, effective June 1, 2019 through May 31, 2044 (SPS Partial Requirements); a 100.8MW power purchase agreement between WTMPA and Elk City II Wind, LLC, effective June 1, 2019 through May 31, 2032 (Elk City Wind); and 112 MW of dependable natural gas fired generation. Expiration of the total requirements power service agreement, followed by the commencement of the SPS Partial Requirements, Elk City Wind and owned-generation leaves a significant amount of capacity required to meet projected LP&L needs beginning in 2019.

To identify a new source of the necessary 2019 capacity, LP&L issued a Request for Proposal (RFP) in July 2014 for capacity and energy supply services for the purchase of some, or all, of the needed capacity. After a methodical and purposeful examination of all proposals and options, the Electric Utility Board (EUB) terminated the RFP on August 11, 2015 and announced on September 24, 2015 the intent to transfer approximately 470MW of load to the Electric Reliability Council of Texas (ERCOT).

Shortly after the public announcement regarding the move to ERCOT, LP&L submitted a full transmission study to ERCOT, which was conducted by expert engineering consultants who worked in close consultation with LP&L. The PUC established a project in Docket #45633 to consider the

LP&L integration in February 2016, and ERCOT completed its LP&L transmission integration study in June 2016. 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. On June 30, 2017 and July 7, 2017 ERCOT and SPP respectively filed their studies with the PUC. In addition to the cost-benefit studies conducted by SPP and ERCOT, LP&L performed its own cost-benefit analysis (LP&L Study), looking closely at every technical component of the future transition.

The LP&L Study demonstrated that the integration of the 470MW of load into ERCOT would bring significant benefits to the SPP and ERCOT systems. The results of the study showed that remaining residential customers in the Texas portion of SPP would see a decrease in their average monthly bills, while the residential bill impact for ERCOT residential customers would not exceed two-tenths of one percent. Should LP&L's request to integrate the 470MW of load into ERCOT be denied, LP&L's residential customers would incur monthly bills that would be 17% to 19% greater than the monthly bills of LP&L customers if served in ERCOT. The LP&L Study also identified significant other benefits to both the SPP and ERCOT systems, including but not limited to the elimination of transmission investment in SPP; reduced congestion on the SPP system; increased ERCOT export limits; and additional export paths for Panhandle resources in ERCOT.

On September 1, 2017 LP&L filed a petition with the PUC requesting a hearing on the merits that initiated the contested case, and submitted the completed LP&L Study in Docket #47576. Additionally, on January 2, 2018, Lubbock Mayor Daniel M. Pope submitted rebuttal testimony in the docket describing his intent to pursue retail customer choice for the ERCOT load. Subsequently, the City Council and Electric Utility Board held joint meetings on January 11, 2018 and both governing bodies unanimously approved resolutions signifying their intent to study deregulation.

The hearing on the merits, to determine if LP&L's move to ERCOT is in the public interest, was held on January 17th and 18th at the PUC. At the conclusion of the hearing, the commission directed all parties to work toward a settlement. Prior to the hearing on the merits, an agreement in principle between LP&L and ERCOT intervenors was reached. All parties in that settlement agreement agreed to support LP&L's integration into ERCOT. Subsequent to the hearing on the merits, an agreement in principle between LP&L and SPP intervenors was also reached, with similar support of the integration. LP&L updated the PUC commissioners on the status of proposed settlement agreements at their January 25th open meeting and LP&L will provide another update to the PUC concerning settlement agreements at the February 15th open meeting. At this time, LP&L expects a final order from the PUC in late February 2018.

LP&L is the first major municipally owned electric system to transfer load from SPP to ERCOT. From the beginning, LP&L has understood that regulatory activities and contested hearing timeframes are time-intensive; therefore a well-planned transition has been a primary focus throughout the process. In March 2017, LP&L entered into an agreement with SPS for a two-year 400 MW capacity and energy scheduling contract. The contract will be effective June 1, 2019 and will run through May 31, 2021. The contract meets the SPP requirement of having firm capacity. A separate agreement with Northern States Power (NSP) provides a price ceiling for energy purchases by implementing a 16 heat rate call option should SPP IM market prices exceed a 16 heat rate price. The price of energy can be calculated by multiplying the MMBtu price of natural gas by the heat rate of any given unit. Thus, the 16 heat rate call option provides a dynamic ceiling that will fluctuate with the price of natural gas. In the event that prices do exceed the call option, NSP will reimburse LP&L for the full amount of energy purchased from the SPP IM above the call option price.

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 to ERCOT. 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.

Customer Service Information Systems – The City of Lubbock Utilities, the City's customer service department for all five city utilities, is included in LP&L's budget with 48.35% of all costs reimbursed from the water, wastewater, storm water and solid waste utilities. The City of Lubbock Utilities currently utilizes an aged computer information system (CIS) for its billing and customer service platform. The current system is outdated, inflexible, and does not allow for new or innovative rate structures without expensive custom coding and time-consuming workarounds. In FY 2016, a capital project was created to replace the CIS system. In the process of studying the potential CIS upgrades, it became clear that more than just a CIS system was needed if the utilities were going to offer the types of services and benefits that customers demand in an increasingly digital world. At that time, the process began to define the scope of the utilities' needs, to write the request for proposal (RFP), to evaluate the RFP responses and ensure a smooth implementation process.

The City of Lubbock Utilities has determined that in addition to the CIS upgrade the following items are needed to provide the type of information and customer service that customers demand:

- Advanced Metering Infrastructure (AMI) – is an integrated system of meters and communications networks that involves the ability to record consumption of electric energy in intervals of an hour or less and communicates that information at least daily to the utility for monitoring and billing
- Meter Data Management (MDM) – is long-term data storage and management for large quantities of data delivered by AMI – the data consists primarily of interval data and meter events
- Mobile Workforce Management (MWFM) – is a category of software and related services used to manage employees working outside the company premises; the term is often used in reference to field teams

Requirements gathering for the CIS/MDM and AMI systems, project planning, and scope were finalized in FY 2017. This process considered meter specification, meter functionality, procurement, and meter deployment logistics including the receipt of materials, meter testing, inventory management, storage, mobilization, deployment, installation and tracking. In FY 2018, the vendors will be selected, the work on the AMI communication network will begin, meters will be purchased, the deployment process will be finalized, meter installations will begin and the CIS/MDM project will kickoff. In FY 2019, the meter installation will be complete and the primary focus will shift to the

CIS/MDM project and overall change management. The CIS/MDM will go live and the systems will enter the stabilization period in FY 2020. In FY 2021, the projects will be complete and system stabilization will be realized.

Statement Processing – In early FY 2018 the City of Lubbock Utilities released a new billing and payment solution that provides easy-to-use payment options and empowers customers to select the fastest and most convenient payment solutions while improving customer satisfaction. The upgrade also provides customers with tools for enrolling in e-statements that can be viewed on desktops or mobile devices or can be delivered through the internet, secure email PDF, or text mediums. In addition to the customer benefits, the change also allowed the City of Lubbock Utilities to operate more efficiently by consolidating vendors, outsourcing the printing operation and realize savings on printing costs related to e-statements.

Texas Tech University – LP&L has been involved in a contract dispute with TTUS since 2014. TTUS has claimed that it has overpaid for electric service under the terms of the existing power purchase agreement (PPA) totaling $4 million, plus interest. The existing PPA provides for an annual refund to TTUS in the event it is billed for service at a greater rate than LP&L's large commercial customers, as defined in the PPA. The language in the PPA is ambiguous as to the customer class in which TTUS should be compared against in the calculation of the refund. There is contractual language in the PPA to support both the TTUS and LP&L positions in the dispute. To date, TTUS has not filed a lawsuit for claimed damages.

In December 2015, TTUS offered to settle the overpayment issue for $3 million with modified refund metrics effective August 31, 2016 subject to the approval of the Board of Regents. LP&L is currently in final negotiations with TTUS to amend the PPA to provide certainty in the refund metric calculations, certainty as to the existing real property rights, the grant of additional property rights related to a new substation and transmission/distribution infrastructure and the refund due. The negotiations are expected to be complete by February 2018 and are expected to be taken to the Electric Utility Board for consideration in February/March 2018.

Base Rate Adjustment – Rates are set by the Board and approved by the Lubbock City Council. On September 14, 2017, the City Council approved a 5.00 percent adjustment in LP&L's base rates, which became effective on October 1, 2017. The long-term financial model does not anticipate a base rate adjustment for the next fiscal year.

Economic Factors – The Department of Energy, via the U.S. Energy Information Administration (EIA), forecasts key energy economic indicators in the United States. Key economic factors that will play a role in operations for FY 2018 as reported by the EIA are as follows:

- Electricity Generation – In 2018, the EIA projects that natural gas prices will continue to slowly rise, resulting in the share of total generation fueled by natural gas to decrease 1.0 percent, down to 32.0 percent.
- Electricity Retail Prices – The expected rise in the cost of natural gas in 2018 is the primary factor for a projected rise in the price of electricity. The EIA expects electricity prices to average 13.2 cents per kilowatt hour (kWh) for calendar year 2018, which is a 2.6 percent increase over 2017.

- Natural Gas Prices – The EIA expects the Henry Hub natural gas spot price to average $3.10 per MMBtu in calendar year 2018, compared with $3.01 per MMBtu in calendar year 2017, due to the growing domestic natural gas consumption and natural gas exports.
- Coal Prices – Coal production in 2017 is estimated to have been 656 million short tons (MMst), which was 59 MMst (10%) higher than production for the same period in 2016. The annual average coal price to the electric power sector averaged $2.13/MMBtu in 2017, which was a 0.5 percent decline from the previous year. The EIA expects the average delivered coal price to average $2.20/MMBtu in 2018.
- Generation Mix – LP&L is in the SPP which maintained the following generation mix in each of the following time periods:

	CY 2017	CY 2016	CY 2015
Natural Gas	19.51%	23.13%	21.64%
Coal	46.34%	48.41%	55.08%
Wind	22.66%	17.47%	13.52%
Hydro	4.17%	3.55%	1.54%
Nuclear	6.79%	7.03%	8.12%
Fuel Oil	0.18%	0.18%	0.03%
Other	0.35%	0.23%	0.07%
	100.00%	**100.00%**	**100.00%**

Legislation and Regulations – There are several pending federal environmental regulations that pertain to power plant and air pollution controls addressing greenhouse gases, including the Clean Power Plan. If these regulations become enforceable for existing facilities, the ability to operate LP&L's electric generation facilities could be restricted, unless additional allowances are acquired or LP&L chooses to limit the operating hours of the facilities.

Federal electric reliability regulations or standards pertaining to high voltage electric transmission lines and equipment change periodically. These standards will impact LP&L and will to a greater extent as planned new construction and upgrades to the high voltage electric transmission lines and equipment are completed.

As applicable regulations change, LP&L is continually monitoring the regulatory agencies enforcing the regulations to assess the impact on LP&L operations. In addition to acquiring vendor support to perform gap analysis and regulatory review as needed, LP&L has dedicated regulatory compliance specialists on staff to coordinate compliance efforts. Management is committed to maintaining a culture of regulatory compliance at LP&L.

REQUESTS FOR INFORMATION

Questions concerning any of the information found in this report, or requests for additional information should be directed to Finance Department, Lubbock Power and Light, P.O. Box 2000, Lubbock, TX 79457.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statement of Net Position
September 30, 2017 and 2016

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,148,731	$ 8,844,988
Investments	62,895,552	55,507,776
Accounts receivable, net	33,937,654	31,358,836
Interest receivable	40,478	28,140
Prepaid expenses	25,000	25,000
Inventories	1,870,195	1,574,779
Total current assets	102,917,610	97,339,519
Noncurrent assets:		
Restricted investments	46,994,423	33,405,967
Goodwill	796,812	1,062,510
Prepaid expenses	1,611,109	1,744,443
	49,402,344	36,212,920
Capital assets:		
Construction in progress	7,849,483	5,159,705
Production Plant	89,453,296	97,271,791
Transmission Plant	45,005,758	44,701,828
Distribution Plant	286,788,226	278,869,587
Regional Trans Market Oper Plant	1,193,702	154,818
General Plant	31,831,640	29,912,443
Less accumulated depreciation	(241,006,745)	(233,826,922)
Total capital assets	221,115,360	222,243,250
Total noncurrent assets	270,517,704	258,456,170
Total assets	$ 373,435,314	$ 355,795,689
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	$ 1,234,719	$ 1,534,143
Deferred outflows from pensions	6,929,607	8,488,807
Total deferred outflows of resources	$ 8,164,326	$ 10,022,950

See accompanying Notes to Basic Financial Statements

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statement of Net Position
September 30, 2017 and 2016

	2017	2016
LIABILITIES		
Current liabilities:		
Accounts payable, net	$ 1,531,608	$ 1,976,758
Accrued liabilities	6,162,295	4,370,603
Accrued interest payable	1,514,556	1,767,398
Due to related party	14,822,879	14,409,098
Customer deposits	4,663,363	5,096,849
Compensated absences	1,954,638	1,836,206
Bonds payable	15,912,078	15,217,476
Total current liabilities	46,561,417	44,674,388
Noncurrent liabilities:		
Compensated absences	879,422	938,188
Post employment benefits	9,373,761	8,738,911
Net pension liability	23,015,914	22,874,630
Bonds payable	112,570,647	111,058,827
Total noncurrent liabilities	145,839,744	143,610,556
Total liabilities	$ 192,401,161	$ 188,284,944
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows from pensions	$ 605,547	$ 906,160
Total deferred inflows of resources	$ 605,547	$ 906,160
NET POSITION		
Net investment in capital assets	129,981,725	118,531,721
Restricted for:		
Debt service	10,354,109	10,392,293
Unrestricted	48,257,098	47,703,521
Total net position	$ 188,592,932	$ 176,627,535

See accompanying Notes to Basic Financial Statements

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statement of Revenues, Expenses, and Changes in Net Position
September 30, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Charges for services	$ 243,928,151	$ 222,951,614
OPERATING EXPENSES		
Personal services	20,179,531	19,858,599
Supplies	1,104,042	993,070
Maintenance	2,434,484	2,103,059
Purchase of fuel and power	162,336,407	145,856,186
Other services and charges	9,145,848	7,569,610
Depreciation and amortization	17,293,626	18,795,569
Total operating expenses	212,493,938	195,176,093
Operating income	31,434,213	27,775,521
NON-OPERATING REVENUES (EXPENSES)		
Interest income	625,337	491,350
Disposition of assets	(479,717)	(3,293)
Miscellaneous	(1,053,043)	(1,593,292)
IRS Build America Bond subsidy	9,988	9,984
Interest expense on bonds	(2,713,899)	(4,093,916)
Total non-operating revenues (expenses)	(3,611,334)	(5,189,167)
Income before contributions and transfers	27,822,879	22,586,354
Capital contributions	28,879	85,741
Transfers, net	(15,886,361)	(14,757,142)
Change in net position	11,965,397	7,914,953
Net position - beginning	176,627,535	168,712,582
Change in accounting principle	-	-
Net position - beginning, as restated	176,627,535	168,712,582
Net position - ending	$ 188,592,932	$ 176,627,535

See accompanying Notes to Basic Financial Statements

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statement of Cash Flows
September 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 241,349,332	$ 218,133,356
Payments to suppliers	(173,929,693)	(154,499,427)
Payments to employees	(18,144,810)	(17,417,357)
Other receipts (payments)	(1,043,055)	(1,583,308)
Net cash provided by operating activities	48,231,774	44,633,264
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Transfers in from other funds	93,243	120,316
Transfers out to other funds	(15,979,604)	(14,877,458)
Net cash used by noncapital and related financing activities	(15,886,361)	(14,757,142)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(16,375,757)	(21,060,596)
Sale of capital assets	129,336	644,832
Principal paid on bonds	(15,302,476)	(14,231,304)
Issuance of bonds	19,867,695	8,614,805
Bond issuance costs	9,606	(269,744)
Interest paid on bonds and capital leases	(5,035,720)	(5,327,795)
Capital grants and contributions	28,879	85,741
Net cash used for capital and related financing activities	(16,678,437)	(31,544,061)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(20,976,232)	2,382,923
Interest earnings on cash and investments	612,999	489,502
Net cash used by investing activities	(20,363,233)	2,872,425
Net increase (decrease) in cash and cash equivalents	(4,696,257)	1,204,486
Cash and cash equivalents - beginning of year	8,844,988	7,640,502
Cash and cash equivalents - end of year	4,148,731	8,844,988
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	31,434,213	27,775,521
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	17,293,626	18,795,569
Other income (expense)	(1,043,055)	(1,583,308)
Change in current assets and liabilities:		
Accounts receivable	(3,808,523)	3,391,185
Accounts receivable, PPRF	1,229,705	(6,011,465)
Inventory	(295,416)	160,081
Accounts payable	(445,150)	818,881
Accounts payable, PPRF	-	(2,197,976)
Due to related party	413,781	1,675,358
Accrued liabilities	1,791,692	1,258,629
Customer deposits	(433,486)	(1,813,126)
Compensated absences and retirement benefits	2,094,387	2,363,915
Net cash provided by operating activities	48,231,774	44,633,264

See accompanying Notes to Basic Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Matters

The accompanying financial statements include only Lubbock Power & Light (LP&L), an enterprise fund of the City of Lubbock, Texas (City). The results of operations and cash flows are in conformity with generally accepted accounting principles. LP&L's financial statements are not intended to present fairly the financial position of the City, and are included as an enterprise fund in the City's Comprehensive Annual Financial Report (CAFR); LP&L has no component units in its reporting entity.

In 1916, the citizens of Lubbock voted to establish a municipal electric company, which was organized to manage the energy needs of the City. Therefore, for the past 100 years, LP&L has served the majority of citizens in this community. On November 2, 2004, Lubbock voters elected to amend the City Charter to provide for an Electric Utility Board composed of nine Lubbock citizens and eligible voters appointed by the City Council to govern, manage and operate LP&L. The Electric Utility Board is responsible for the governance and management of LP&L in providing dependable and reliable electric service at reasonable and competitive rates to the citizens of Lubbock while being financially self-sustaining.

A Transaction Agreement for Total Requirements Power Service (SPS Power Agreement) between the West Texas Municipal Power Agency (WTMPA) and Southwestern Public Service Company (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 15-year agreement is through the hour ending at midnight on May 31, 2019, unless cancelled earlier. After the termination of the SPS Power Agreement, capacity and energy supply will be provided by a 170MW partial requirements contract with SPS, effective June 1, 2019 through May 31, 2044; a 400MW Capacity and Energy Scheduling Contract with SPS, effective June 1, 2019 through May 31, 2021; a 100.8MW power purchase agreement between WTMPA and Elk City II Wind, LLC, effective June 1, 2019 through May 31, 2032; and 112 MW of dependable natural gas fired generation, with approximately 112MW anticipated to be available in 2019 to meet LP&L's load requirements.

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

A. General Matters (continued)

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 into ERCOT would affect ERCOT, SPP and Lubbock ratepayers. On September 1, 2017, LP&L formally requested the initiation of a PUC hearing on the merits to determine if LP&L's transition to ERCOT is in the public interest. The PUC established Project No. 47576, *Application of the City of Lubbock through LP&L for Authority to Connect a Portion of its System with ERCOT*, and developed a procedural schedule that LP&L believes will allow sufficient time for the contested case to be conducted and to receive a decision by the PUC in the first quarter of 2018.

Upon PUC approval of LP&L's interconnection with ERCOT, additional infrastructure will need to be constructed to connect the LP&L system to the ERCOT power grid. A CCN case is expected to be initiated shortly after receiving PUC approval in the public interest docket, if received. Additionally, a study to identify the impacts of opting in to retail competition will commence. That study is expected to take a minimum of one year to complete. Based on the outcome of the study, the City Council and Electric Utility Board will determine if it is in the City's and LP&L's best interest to opt in to the competitive retail electric market.

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.

LP&L is a member of WTMPA. In 1983, the Texas cities of Lubbock, Brownfield, Floydada, and Tulia (Cities) created WTMPA as a joint power agency to enhance the negotiating strength of the individual Cities in obtaining favorable firm electric power contracts and in coordinating joint planning for additional generation. An eight-member board of directors governs WTMPA. The board consists of two directors from each of the Cities. One member is elected as the president, who presides over meetings. WTMPA is shown as a blended component unit in the City's CAFR. Until June 1, 2019, WTMPA has contracted with SPS, on behalf of the Cities, for total-requirements service. After June 1, 2019, the total-requirements contract will terminate and the Cities will procure energy and capacity independently, with the exception of the 100.8MW wind energy contract with NextEra.

B. Significant Accounting Policies

The financial statements are presented on an accrual basis and are in conformity with accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental enterprise funds. LP&L has adopted the principles promulgated by the Governmental Accounting Standards Board (GASB).

The financial statements are prepared using the economic resources measurement focus. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Operating revenues are defined as revenues received from the sale of electricity and associated services. Revenues from capital and related financing and investment activities are defined as non-operating revenues. Restricted net position represents constraints on resources that are imposed by bond indentures and may be utilized only for the purposes established by the bond indentures. Unrestricted net position may be utilized for any purpose approved by the Electric Utility Board and by the City Council through the budget process. When both restricted and unrestricted net position might be used to meet an obligation, LP&L first uses the restricted net position.

<u>Equity in Cash and Investments</u>
The City pools the resources of the various funds, including LP&L, to facilitate the management of cash and enhance investment earnings. Records are maintained that reflect each fund's equity in the pooled investments. Government agency bonds and municipal bonds are stated at fair value, while the TexSTAR, LOGIC, and Texas CLASS state pools are stated at net asset value. Money market mutual funds and the TexPool state pool are stated at amortized cost.

<u>Cash Equivalents</u>
Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and have original maturities of three months or less when purchased, which presents an insignificant risk of changes in value because of changes in interest rates.

<u>Investments</u>
Investments include State Investment Pools and 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, Certificates of Deposit, and Money market mutual funds. Restricted investments include investments that have been restricted for bond financed capital projects and funds that have been restricted by bond covenants for debt service requirements.

<u>Accounts Receivable</u>
Accounts receivable balances represent amounts due primarily from metered customers. Metered revenues for the first fifteen days of every month are attributable to billing cycles in the prior month; therefore, metered revenues for the first fifteen days of the first month after the fiscal year-end are accrued and reported in accounts receivable. LP&L does not require collateral to support its accounts receivable. Management believes the recorded receivables, net of allowances totaling $2,283,881, are collectible.

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, e.g., inventory is expensed when used rather than when purchased.

Capital Assets and Depreciation

Capital assets are defined as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. All expenses associated with the development and construction of LP&L's ownership interests in the electric system have been recorded at original cost and are being depreciated on a straight-line basis over the estimated useful life of each asset.

In April 2016, LP&L completed an asset evaluation study to convert its fixed asset records to the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts. The assets were converted into FERC categories on the financial statements as of August 2016. The useful life of each asset is estimated as follows:

Intangible Plant	6-45 years	Production Plant	1-50 years
Transmission Plant	30-60 years	Distribution Plant	6-50 years
Regional Transmission and Market Operation Plant	5 years	General Plant	2-45 years

Major outlays for capital assets and improvements are capitalized as the projects are constructed. The cost of normal maintenance and repairs that do not increase the value of the asset or materially extend the useful life, are expensed when incurred.

Construction in Progress

All expenses related to capital additions are capitalized as construction in progress until they are completed. Depreciation expense is recognized on these items after the projects are completed. LP&L capitalizes interest costs according to GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre- November 30, 1989 FASB and AICPA Pronouncements*. LP&L capitalized interest totaling approximately $139,915, net of interest earned during FY 2017, and $143,415 net of interest earned during FY 2016.

Net Position

Total net position includes net investment in capital assets, along with restricted and unrestricted net assets. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position includes noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to LP&L and the City, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position includes remaining assets and deferred outflows, less remaining liabilities and deferred inflows that do not meet the definition of net investment in capital assets, restricted expendable, or restricted nonexpendable.

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 and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Interfund Transactions

Interfund transactions are accounted for as revenues or expenses on the Statements of Revenues, Expenses, and Changes in Net Position. 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. For additional information on interfund transactions, reference Note 3: Interfund Transactions.

Implementation of New Accounting Principles

In FY 2018, LP&L will implement GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB).* This statement addresses accounting and financial reporting by governments that provide OPEB, such as retiree health insurance, to their employees. The effects of these standards on the financial statements have not yet been determined.

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

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. LP&L has deferred charges on debt refundings. A deferred charge is the difference in the carrying value of refunded bonds and the reacquisition price and is deferred or amortized over the shorter of the life of the refunded bonds or the refunding bonds. LP&L also has deferred outflows for pensions related to contributions and expected investment experience versus actual investment experience.

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. Deferred inflows include pension actuarial differences in expected and actual experience, per GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. For additional information on deferred outflows/inflows related to pensions, reference Note 8: Retirement Plan.

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 the fiduciary net position of the Texas Municipal Retirement System (TMRS) Plan and additions to/deductions from the TMRS' fiduciary net position have been determined on the same basis as they are reported by TMRS. 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. Information regarding the City's total pension liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company, in compliance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27.*

NOTE 2: DEPOSITS AND INVESTMENTS

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 investment policy related to custodial credit risk requires compliance with the provisions of the Texas Public Funds Investment Act.

State law requires collateralization of all deposits with federal depository insurance, eligible securities, or a surety bond having an aggregate value at least equal to the amount of the deposits. LP&L pools its monies with the City, and the City oversees and administers LP&L's investments. The City's investment policy requires the minimum collateral level to be 102% of market value of principal and accrued interest.

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

Insured	$ 214,800
Uninsured and collateral held by a third party financial institution in the City's name	3,913,221
Total	$ 4,128,021

NOTE 2: DEPOSITS AND INVESTMENTS (continued)

At September 30, 2017 and 2016, LP&L had the following investments and maturities:

	30-Sep-17			30-Sep-16		
		Maturities in Years			Maturities in Years	
Type	Fair Value	Less Than 1	1-5	Fair Value	Less Than 1	1-5
Federal Farm Credit Bank (FFCB)	$ 2,916,037	$ 900,813	$ 2,015,224	$ 3,533,402	$ 1,570,031	$ 1,963,371
Farmer Mac (FAMCA)	225,247	-	225,247	687,726	489,595	198,131
Federal Home Loan Banks (FHLB)	5,388,088	1,664,471	3,723,617	5,896,459	2,354,515	3,541,944
Federal Home Loan Mortgage Corporation (FHLMC)	4,159,711	2,927,290	1,232,421	3,433,203	589,104	2,844,099
Federal National Mortgage Association (FNMA)	3,576,289	1,799,971	1,776,318	2,546,350	196,132	2,350,218
Municipal Bonds	9,734,574	1,370,823	8,363,751	6,431,235	1,857,820	4,573,415
Certificates of deposit	139,524	139,524	-	-	-	-
Money market mutual funds	26,878	26,878	-	141,028	141,028	-
State Investment Pools *	83,723,629	83,723,629	-	66,244,340	66,244,340	-
Total	$ 109,889,977	$ 92,553,399	$ 17,336,578	$ 88,913,743	$ 73,442,565	$ 15,471,178

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

Investment in State Investment Pools

The City utilizes four state local government investment pools (LGIPs) that include: TexPool Local Government Investment Pool (TexPool), Texas Short Term Asset Reserve (TexSTAR), Local Government Investment Cooperative (LOGIC) and Texas Cooperative Liquid Assets Securities System (Texas CLASS).

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

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 FirstSouthwest, a division of Hilltop Securities (FirstSouthwest); and the final director is an officer or employee of an affiliate of J.P. Morgan Investment Management Inc. (JPMIM). TexSTAR's Bylaws also require the Board to appoint an advisory board. The Advisory Board currently consists of six members, each of whom is either (1) a representative of a Participant or (2) a person who has no business relationship with the Board, but who

NOTE 2: DEPOSITS AND INVESTMENTS (continued)

is qualified to advise the Board. The Advisory Board shall at all times include at least one member of each such designation. The investment objective and strategy of the pool is to seek preservation of principal, liquidity and current income through investment in a diversified portfolio of short-term marketable securities. TexStar is rated AAAm by Standard & Poor's. 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 who 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 LOGIC Board. Assets invested in any Portfolio will be managed separately, and segregated from, the assets of every other Portfolio. Since September 2005, JPMIM has served as investment adviser to LOGIC. FirstSouthwest and JPMIM serve as co-administrators to LOGIC, and FirstSouthwest provides administrative, participant support, and marketing services. JPMorgan Chase Bank N.A. provides custodial services. The investment objective and strategy of the pool is to seek preservation of principal, liquidity and current income through investment in a diversified portfolio of short-term marketable securities. LOGIC is rated AAAm by Standard & Poor's. The pool offers same day access to investment funds.

Texas CLASS was created specifically for the use of Texas local government entities and seeks to provide safety, liquidity, convenience, and competitive rates of return. Public Trust Advisors, LLC serves as the pool's administrator and investment adviser. The marketing and operation functions of the portfolio are also performed by Public Trust Advisors, LLC. The pool is subject to the general supervision of its 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. Texas CLASS is rated AAAm by Standard and Poor's. The pool offers same day access to investment funds.

Interest Rate Risk
As a means of limiting its exposure to fair value losses due to rising interest rates, the City's investment policy limits investments to those that can be held to maturity and limits final maturity to no more than five (5) years. The City uses the specific identification method for positions in fixed-rate securities. The LGIPs utilized by the City have laddered maturities within their funds, yet 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 counterparty to an investment will not fulfill its obligations. The City's policy allows investment in direct obligations of and other obligations guaranteed as to principal of the U.S. Treasury and U.S. agencies and instrumentalities with the exception of mortgage backed securities. It allows investment in obligations of the State of Texas or its agencies and obligations of states, agencies, counties, cities, and other political subdivisions rated not less than A or its equivalent. The City

NOTE 2: DEPOSITS AND INVESTMENTS (continued)

may also invest in collateralized certificates of deposit, AAA-rated, no-load money market mutual funds regulated by the Securities and Exchange Commission and AAA-rated constant-dollar LGIPs authorized by the City Council. On September 30, 2017, Standard & Poor's rated the LGIPs AAAm. The senior unsecured debt for investments in the FNMA, FAMCA, FFCB, FHLMC, and FHLB are rated AA+ by Standard & Poor's (S&P) 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 deposits and repurchase agreements be held in an institution that has a minimum collateral level of 102% 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 City's Audit and Investment Committee for investment purposes.

Concentration of Credit Risk

The City places limits on the amount that may be invested in any one issuer with the exception of United States Treasury obligations and State Investment Pools. As of September 30, 2017, LP&L's investments constituted the following percentages of total investments: State Investment Pools – 77.05%, Municipal Bonds – 8.54%, FHLB – 4.72%, FHLMC – 3.65%, FNMA – 3.14%, FFCB – 2.56%, FAMCA - 0.20%, Certificates of Deposit – 0.12% and Money Market Mutual Funds – 0.02%.

Foreign Currency Risk

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

Disclosures about Fair Value of Assets and Liabilities

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

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

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

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

NOTE 2: DEPOSITS AND INVESTMENTS (continued)

Recurring Measurements

The following table presents the fair value measurements of LP&L's assets and liabilities recognized in the accompanying financial statements, measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2017 and 2016:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2017				
Investments by fair value level				
Federal Farm Credit Bank (FFCB)	$ 2,916,037	$ -	$ 2,916,037	$ -
Farmers Mac (FAMCA)	225,247	-	225,247	-
Federal Home Loan Bank (FHLB)	5,388,088	-	5,388,088	-
Federal Home Loan Mortgage Corporation (FHLMC)	4,159,711	-	4,159,711	-
Federal National Mortgage Association (FNMA)	3,576,289	-	3,576,289	-
Municipal Bonds	9,734,574	-	9,734,574	-
Total investments by fair value level	$ 25,999,946	$ -	$ 25,999,946	$ -
Investments measured at the net asset value				
TexStar	$ 30,102,527			
LOGIC	27,640,291			
Texas Class	24,397,760			
Total investments measured at the NAV	$ 82,140,578			
Investments measured at amortized cost				
TexPool	$ 1,583,052			
Money Markets	26,878			
Non-negotiable Certificate of Deposit	139,524			
Total investments at amortized cost	$ 1,749,454			
Total Investments	$ 109,889,978			

NOTE 2: DEPOSITS AND INVESTMENTS (continued)

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2016				
Investments by fair value level				
Federal Farm Credit Bank (FFCB)	$ 3,533,402	$ -	$ 3,533,402	$ -
Farmers Mac (FAMCA)	687,726	-	687,726	-
Federal Home Loan Bank (FHLB)	5,896,459	-	5,896,459	-
Federal Home Loan Mortgage Corporation (FHLMC)	3,433,203	-	3,433,203	-
Federal National Mortgage Association (FNMA)	2,546,350	-	2,546,350	-
Municipal Bonds	6,431,235	-	6,431,235	-
Total investments by fair value level	$ 22,528,375	$ -	$ 22,528,375	$ -
Investments measured at the net asset value				
TexStar	$ 36,636,592			
LOGIC	8,673,700			
Texas Class	16,469,591			
Total investments measured at the NAV	$ 61,779,883			
Investments measured at amortized cost				
TexPool	$ 4,464,457			
Money Markets	141,028			
Total investments at amortized cost	$ 4,605,485			
Total Investments	$ 88,913,743			

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.

NOTE 3: INTERFUND TRANSACTIONS

The due to related party balance is a short-term payable due to WTMPA, which was $14,822,879 and $14,409,098 at September 30, 2017 and 2016, respectively. This outstanding balance will be repaid within one month.

At September 30, 2017 and 2016, LP&L had no internal financing.

Net transfers out totaling $15,886,361 for FY 2016 from LP&L to other City funds were the result of 1) General Fund indirect cost allocations, totaling $1,066,407; 2) payments to WTMPA for management and administration, totaling $1,400,873; 3) City franchise fee equivalents totaling $11,260,270; 4) Payment in lieu of taxes totaling $2,252,054; offset by a transfer in from the City's Water Fund totaling $93,243.

Net transfers out totaling $14,757,142 for FY 2016 from LP&L to other City funds were the result of 1) General Fund indirect cost allocations, totaling $1,123,599; 2) payments to WTMPA for management and administration, totaling $1,372,069; 3) City franchise fee equivalents totaling $10,318,159; 4) Payment in lieu of taxes totaling $2,063,632; offset by a transfer in from the City's Water Fund totaling $87,891 and a transfer in from the City's Grant Fund totaling $32,425.

NOTE 4: INVENTORY

The inventory at September 30, 2017 and 2016 was $1,870,195 and $1,574,779, respectively and was comprised of equipment and repair parts used in the maintenance and operations of the utility.

NOTE 5: PREPAID EXPENSES

The total prepaid expenses included in noncurrent assets, totaling $1,611,109 in 2017 and $1,744,443 in 2016, represent an advertising contract with Texas Tech University. The amortization began when the United Supermarkets Arena opened in FY 2000 and is for a total of thirty years.

NOTE 6: GOODWILL

The goodwill book value, totaling $796,812 in 2017 and $1,062,510 in 2016, represents the excess unamortized purchase price over the estimated value of capital assets purchased from SPS in FY 2011. The goodwill is amortized over a 10-year period.

NOTE 7: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2017

	Beginning Balances	Increases	Decreases	Ending Balances
Capital Assets, Not Depreciated:				
Construction in Progress	$ 5,159,705	$ 16,110,338	$ 13,420,560	$ 7,849,483
Electric Production Plant	75,410	-	-	75,410
Electric Transmission Plant	35,046	-	-	35,046
Electric Distribution Plant	16,365,633	28,879	-	16,394,512
Electric General Plant	302,521	-	-	302,521
Total Capital Assets, Not Depreciated	21,938,315	16,139,217	13,420,560	24,656,972
Capital Assets, Depreciated:				
Electric Production Plant	97,196,381	1,145,347	8,963,842	89,377,886
Electric Transmission Plant	44,666,782	389,762	85,832	44,970,712
Electric Distribution Plant	262,503,954	9,104,064	1,214,304	270,393,714
Electric Regional Trans Mkt Oper Plant	154,818	1,038,884	-	1,193,702
Electric General Plant	29,609,922	2,375,976	456,779	31,529,119
Total Capital Assets, Depreciated	434,131,857	14,054,033	10,720,757	437,465,133
Less Accumulated Depreciation:				
Electric Production Plant	60,465,257	3,567,062	8,445,779	55,586,540
Electric Transmission Plant	15,918,486	602,315	85,832	16,434,969
Electric Distribution Plant	139,981,604	10,662,508	1,207,783	149,436,329
Electric Regional Trans Mkt Oper Plant	23,270	134,822	-	158,092
Electric General Plant	17,438,305	2,051,874	99,364	19,390,815
Total Accumulated Depreciation:	233,826,922	17,018,581	9,838,758	241,006,745
Total Capital Assets Depreciated, Net	200,304,935	(2,964,548)	881,999	196,458,388
Capital Assets, Net	$ 222,243,250	$ 13,174,669	$ 14,302,559	$ 221,115,360

NOTE 7: CAPITAL ASSETS (continued)

Capital asset activity for the year ended September 30, 2016*:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital Assets, Not Depreciated:				
Construction in Progress	$ 10,841,388	$ 20,595,652	$ 26,277,335	$ 5,159,705
Electric Production Plant	75,410	-	-	75,410
Electric Transmission Plant	-	35,046	-	35,046
Electric Distribution Plant	16,279,891	85,742	-	16,365,633
Electric General Plant	302,521	-	-	302,521
Total Capital Assets, Not Depreciated	27,499,210	20,716,440	26,277,335	21,938,315
Capital Assets, Depreciated:				
Electric Production Plant	96,904,291	513,856	221,766	97,196,381
Electric Transmission Plant	31,913,665	12,759,029	5,912	44,666,782
Electric Distribution Plant	251,223,379	11,720,636	440,061	262,503,954
Electric Regional Trans Mkt Oper Plant	-	154,818	-	154,818
Electric General Plant	29,366,777	1,545,261	1,302,116	29,609,922
Total Capital Assets, Depreciated	409,408,112	26,693,600	1,969,855	434,131,857
Less Accumulated Depreciation:				
Electric Production Plant	56,931,668	3,640,711	107,122	60,465,257
Electric Transmission Plant	15,898,744	25,654	5,912	15,918,486
Electric Distribution Plant	127,634,455	12,787,210	440,061	139,981,604
Electric Regional Trans Mkt Oper Plant	-	23,270	-	23,270
Electric General Plant	16,215,138	1,991,805	768,638	17,438,305
Total Accumulated Depreciation:	216,680,005	18,468,650	1,321,733	233,826,922
Total Capital Assets Depreciated, Net	192,728,107	8,224,950	648,122	200,304,935
Capital Assets, Net	$ 220,227,317	$ 28,941,390	$ 26,925,457	$ 222,243,250

*The fixed asset details for FY 2015-16 have been revised as a result of the FERC conversion (see Note 1.B: Capital Assets and Depreciation).

Construction Commitments

LP&L had active construction projects at fiscal year-end. Projects included the continued construction of transmission line, distribution lines, substation expansion, power plant upgrades, and electric system improvements.

Construction Commitments at September 30, 2017:

Original Commitments	Spent-to-Date	Remaining Commitments
$ 61,904,327	$ 21,588,076	$ 40,316,251

NOTE 8: RETIREMENT PLAN

The City participates in the Texas Municipal Retirement System (TMRS) for its retirement plan. All eligible employees are required to participate in TMRS. Neither the City, nor LP&L, maintains the accounting records, holds the investments, or administers the retirement plan.

The total of LP&L's net pension liabilities, deferred outflows of resources, and deferred inflows of resources related to pensions as of September 30, 2017 and 2016, and the pension expense for the years then ended are as follows:

	TMRS 2017	TMRS 2016
Net pension liability:	$ 23,015,914	$ 22,874,630
Deferred outflows of resources:	$ 6,929,607	$ 8,488,807
Deferred inflows of resources:	$ 605,547	$ 906,160
Pension expense:	$ 4,615,288	$ 4,155,743

Plan Description

LP&L provides pension benefits for all of its full-time employees through the City's pension benefits plan. The City participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by 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' defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. Allocation of pension items to LP&L is done on the basis of payroll of LP&L participant employees in relation to total City employees. For 2016 and 2015 measurement periods, the allocation percentages were 18.61% and 18.38%, respectively. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.TMRS.com.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the City Council, 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.

NOTE 8: RETIREMENT PLAN (continued)

The adopted plan provisions for plan years 2016 and 2015 were as follows:

	Plan Year
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

Contributions
The contribution rate for employees is 7% of employee gross earnings, and the matching percentage is 200%, both as adopted by the City Council. 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.

The employer contribution rates were 17.96% and 17.95% in calendar years 2016 and 2017, respectively. LP&L's contributions to TMRS for the years ended September 30, 2017 and 2016, were $3,187,375 and $3,090,958, respectively, and were equal to the required contributions.

Net Pension Liability
LP&L's net pension liability (NPL) was measured as of December 31, 2016 and 2015, and the total pension liability (TPL) used to calculate the NPL was determined by actuarial valuations as of these dates.

Actuarial Assumptions
The TPL in the December 31, 2016 and 2015 actuarial valuations was determined using the following actuarial assumptions:

2016:	
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
2015:	
Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension investment expense, including inflation

NOTE 8: RETIREMENT PLAN (continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2016 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. Those assumptions were first used in the December 31, 2013 valuation, along with a change to EAN actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2016 valuation.

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. Those assumptions were first used in the December 31, 2013 valuation, along with a change to EAN actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2015 valuation.

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 the best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, Gabriel, Roeder, Smith & Company (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 arithmetic real rates of return for each major asset class in fiscal year 2017 are summarized in the following table:

NOTE 8: RETIREMENT PLAN (continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	100.0%	

Discount Rate

The discount rate used to measure the TPL was 6.75% for both the December 2016 and 2015 actuarial valuations. 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 TPL.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at September 30, 2016	$119,083,215	$ 96,208,585	$ 22,874,630
Changes for the year:			
Service cost	2,944,598	-	2,944,598
Interest	8,107,660	-	8,107,660
Difference between expected and actual experience	(21,609)	-	(21,609)
Changes of assumptions	-	-	-
Contributions – employer	-	3,112,712	(3,112,712)
Contributions – employee	-	1,213,195	(1,213,195)
Net investment income	-	6,642,534	(6,642,534)
Benefit payments, including refunds of employee contributions	(5,962,200)	(5,962,200)	-
Administrative expense	-	(75,034)	75,034
Other changes	-	(4,042)	4,042
Net changes	$ 5,068,449	$ 4,927,165	$ 141,284
Balance at September 30, 2017	**$124,151,664**	**$ 101,135,750**	**$ 23,015,914**

NOTE 8: RETIREMENT PLAN (continued)

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at September 30, 2015	$114,386,897	$ 97,665,101	$ 16,721,796
Changes for the year:			
Service cost	2,875,400	-	2,875,400
Interest	7,972,440	-	7,972,440
Difference between expected and actual experience	(424,313)	-	(424,313)
Contributions – employer	199,125	-	199,125
Contributions – employee	-	3,207,997	(3,207,997)
Net investment income	-	1,209,360	(1,209,360)
Benefit payments, including refunds of employee contributions	-	145,404	(145,404)
Administrative expense	(5,926,334)	(5,926,334)	-
Other changes	-	(88,569)	88,569
Net changes	-	(4,374)	4,374
Balance at September 30, 2016	$ 4,696,318	$ (1,456,516)	$ 6,152,834
	$119,083,215	**$ 96,208,585**	**$ 22,874,630**

Sensitivity of the NPL to Changes in the Discount Rate

The following represents the NPL of LP&L at September 30, 2017, calculated using the discount rate of 6.75%, as well as what LP&L's NPL would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
LP&L's net pension liability	$39,880,546	$23,015,914	$9,144,186

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued TMRS financial report, which can be obtained on TMRS' website at www.TMRS.com.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources (Related to Pensions)

For the years ended September 30, 2017 and 2016, LP&L recognized pension expense of $4,615,288 and $4,155,743, respectively. At September 30, 2017 and 2016, LP&L reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NOTE 8: RETIREMENT PLAN (continued)

Balance at September 30, 2017	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ 110,463	$ -
Difference in expected and actual experience	-	605,547
Difference between projected and actual investment earnings	4,500,334	-
Contributions subsequent to the measurement date	2,318,810	-
Total	**$ 6,929,607**	**$ 605,547**

Balance at September 30, 2016	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ 155,070	$ -
Difference in expected and actual experience	-	906,160
Difference between projected and actual investment earnings	6,117,632	-
Contributions subsequent to the measurement date	2,216,105	-
Total	**$ 8,488,807**	**$ 906,160**

At September 30, 2017, the amount totaling $2,318,810 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability as of September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending September 30:	
2018	$ 1,310,394
2019	1,385,989
2020	1,312,556
2021	(3,689)
Total	**$ 4,005,250**

NOTE 9: OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

LP&L participates in the City's OPEB, described as follows: The City sponsors and administers an informal single-employer health/dental plan. Texas statute provides that retirees from a municipality with a population equal to, or greater than, 25,000 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. Neither the City, nor LP&L, issue stand-alone financial statements for the health/dental plan, but all required information is presented in the City's CAFR.

Funding Policy

The contribution requirements of plan members are established by the City and may be amended as needed. Retiree medical/dental coverage levels are the same as coverage provided to active City employees in accordance with the terms and conditions of the current City Benefit Plan. Employees who retire with 15 or more years of service that retire who have a balance in excess of 90 days sick leave are eligible to continue receiving medical coverage in full 30 day periods for the term of their sick leave balance. Plan members may purchase retiree health/dental care coverage for eligible spouses and dependents at their own expense and receive a benefit from the blended premium rate from all of the employees participating in the City's health insurance plans. The City is not required to make contributions to the plan on behalf of the retirees and funds the plan on a projected pay-as-you-go financing method. The plan has 713 active participants who pay monthly premiums of $362/$22 (medical/dental) for single coverage and $826/$49 (medical/dental) for family coverage, pre-65. For post-65, monthly premiums are $196/$22 (medical/dental) for single coverage and $587/$49 (medical/dental) for family coverage.

Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB expense is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of accrual that is projected to recognize the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of LP&L's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in LP&L's net OPEB obligation:

Annual required contribution	$1,343,737
Interest on net OPEB obligation	336,161
Adjustment to the ARC	(337,440)
Annual OPEB Cost	1,342,458
Total annual employer contribution (pay-as-you-go)	(707,608)
Increase in net OPEB obligation	634,850
Net OPEB obligation – beginning of year	8,738,911
Net OPEB obligation – end of year	$9,373,761

NOTE 9: OTHER POSTEMPLOYMENT BENEFITS (continued)

Three-Year Trend Information

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
09/30/2015	$1,817,220	34.7%	$7,362,279
09/30/2016	1,986,346	30.7%	8,738,911
09/30/2017	1,342,458	52.7%	9,373,761

Funded Status and Funding Progress

As of October 1, 2015, the most recent actuarial valuation date, the plan was not funded. The City's actuarial accrued liability for benefits was $120,877,439, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) totaling $120,877,439. The covered payroll (annual payroll of active employees covered by the plan) was $122,938,662 and the ratio of the UAAL to the covered payroll was 98.3%. LP&L's percentage of the ARC is calculated at 12.59%; hence, LP&L's accrued liability for benefits was $15,218,470 and the actuarial value of assets was $0, resulting in an UAAL totaling $15,218,470. The covered payroll (annual payroll of active employees covered by the plan) was $15,477,978 and the ratio of the UAAL to the covered payroll was 98.3%.

Actuarial Methods and Assumptions

The projected unit credit actuarial cost method was used to calculate the GASB ARC for the City's health care plan. Using the plan benefits, the present health premiums, and a set of actuarial assumptions, the anticipated future payments are projected. The individual entry-age actuarial cost method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members, as well as to amortize a portion of the unfunded accrued liability.

Projections of health benefits are based on the plan as understood by the City and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the City's employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Inflation rate	2.5% per annum
Investment rate of return	3.75% net of expenses
Actuarial cost method	Individual Entry Age Normal Cost Method
Amortization method	Level as a percentage of employee payroll
Amortization period	30-year open amortization
Payroll growth	3.0% per year
Healthcare trend	Initial rate of 7.0% declining to an ultimate rate of 4.5% after 13 years

NOTE 9: OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the City's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time, relative to actuarial accrued liability for benefits.

NOTE 10: DEFERRED COMPENSATION

LP&L participates in the City's deferred compensation program and offers its employees six deferred compensation plans in accordance with Internal Revenue Code Section 457. The plans are available to all LP&L's employees, and the plans 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 benefits of the participants and their beneficiaries. Neither the City, nor LP&L, provide administrative services or have any fiduciary responsibilities for these plans; therefore, they are not presented in the financial statements.

NOTE 11: LONG-TERM LIABILITIES

General Obligation Bonds and Certificates of Obligation

The City issued General Obligation Bonds and Certificates of Obligation on behalf of LP&L. The amounts of all outstanding balances are as follows:

Average Interest Rate	Issue Date	Final Maturity Date	Amount Issued	Balance Outstanding 9-30-17*	Balance Outstanding 9-30-16**
4.42	04-15-08	08-15-27	$ 6,498,295	$ 307,281	$ 599,955
4.53	03-01-09	08-15-29	6,936,647	1,735,000	2,035,000
2.70	02-15-10	02-15-30	5,410,997	3,910,000	4,173,632
5.67	02-15-10	02-15-30	557,444	557,444	557,444
1.61	04-15-13	04-15-21	5,990,000	2,400,000	3,975,000
1.76	04-15-13	04-15-24	2,585,000	2,205,000	2,575,000
2.63	05-01-14	04-15-26	4,515,000	2,835,000	2,835,000
2.37	04-15-15	04-15-28	12,840,000	12,840,000	12,840,000
2.41	04-15-16	02-15-34	3,060,000	3,060,000	3,060,000
2.47	11-01-16	02-15-34	36,780,000	3,145,000	-
Total			$85,173,383	$32,994,725	$37,812,202

* Balance outstanding excludes $3,386,771 of net bond premiums and discounts.
** Balance outstanding excludes $3,715,405 of net bond premiums and discounts.

NOTE 11: LONG-TERM LIABILITIES (continued)

At September 30, 2017, the City and LP&L management believes it was in compliance with all financial bond covenants on outstanding general obligation bonded debt and certificates of obligation.

Electric Revenue Bonds

Interest Rate (%)	Issue Date	Final Maturity Date	Amount Issued	Balance Outstanding 9-30-17*	Balance Outstanding 9-30-16**
2.45	10/15/10	4/15/20	$ 73,295,000	$ 24,890,000	$ 32,450,00
1.90	05/21/13	4/15/24	16,570,000	10,210,000	11,815,000
3.09	05/01/14	4/15/34	16,245,000	13,545,000	14,445,000
3.41	04/15/15	4/15/35	11,865,000	11,050,000	11,455,000
3.04	04/15/16	4/15/46	7,535,000	7,225,000	7,535,000
3.60	08/15/17	02/15/47	17,760,000	17,760,000	-
Total			$ 143,270,000	$ 84,680,000	$ 77,700,000

* Balance outstanding excludes $7,421,228 of net bond premiums and discounts.
** Balance outstanding excludes $7,048,696 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 revenue bonds equals $30.1 million.

The general purpose for the debt is for acquiring, purchasing, constructing, improving, renovating, enlarging, and/or equipping property, buildings, structures, facilities and/or related infrastructure for the Electric Light and Power System. Net revenue available for debt service is 3.4 times the debt service requirements in FY 2017.

At September 30, 2017, the City and LP&L management believes it was in compliance with all financial bond covenants on outstanding revenue bonds.

NOTE 11: LONG-TERM LIABILITIES (continued)

The annual requirements to amortize LP&L's outstanding debt are as follows:

Fiscal	General Obligation Bonds		Revenue Bonds	
Year	Principal	Interest	Principal	Interest
2017-18	4,397,078	1,400,208	11,515,000	3,410,878
2018-19	3,020,816	1,264,161	11,995,000	3,163,544
2019-20	3,151,922	1,131,596	12,440,000	2,688,894
2020-21	3,288,087	988,451	3,910,000	2,107,844
2021-22	3,149,339	840,674	3,960,000	1,946,444
2023-27	13,299,117	2,128,574	14,390,000	7,393,507
2028-32	2,688,367	139,564	10,145,000	4,821,531
2033-37	-	-	8,025,000	2,599,238
2038-42	-	-	3,740,000	1,465,744
2043-47	-	-	4,560,000	549,925
Totals	$ 32,994,726	$ 7,893,228	$ 84,680,000	$ 30,147,548

Long-term obligations (net of discounts and premiums) for the fiscal years ended September 30, 2017 and 2016 are as follows:

Fiscal Year 2017	Balance 9/30/2016	Additions	Deletions	Balance 9/30/2017	Due in one year
LP&L activities:					
General Obligation Bonds	$37,812,202	$3,230,000	$8,047,476	$32,994,726	$4,397,078
Revenue Bonds	77,700,000	17,760,000	10,780,000	84,680,000	11,515,000
Bond Premiums	10,764,101	2,451,085	2,407,187	10,807,999	-
Compensated Absences	2,774,394	1,709,811	1,650,145	2,834,060	1,954,638
Other Postemployment Bene	8,738,911	634,850	-	9,373,761	-
Net Pension Obligation	22,874,630	11,131,335	10,990,051	23,015,914	-
Total LP&L activities	$160,664,238	$36,917,081	$33,874,859	$163,706,460	$17,866,716

Fiscal Year 2016	Balance 9/30/2015	Additions	Deletions	Balance 9/30/2016	Due in one year
LP&L activities:					
General Obligation Bonds	$42,153,507	$3,085,000	$7,426,306	$37,812,202	$4,437,476
Revenue Bonds	80,225,000	7,535,000	10,060,000	77,700,000	10,780,000
Bond Premiums	10,871,678	1,249,805	1,357,381	10,764,101	-
Compensated Absences	2,851,718	1,697,822	1,775,146	2,774,394	1,836,206
Other Postemployment Bene	7,362,279	1,376,632	-	8,738,911	-
Net Pension Obligation	16,721,796	11,139,909	4,987,075	22,874,630	-
Total LP&L activities	$160,185,978	$26,084,168	$25,605,908	$160,664,238	$17,053,682

Proceeds from the sale of Bonds are used for the purpose of paying contractual obligations incurred for various electric system improvements and professional services rendered in connection therewith and costs associated with the issuance of the Bonds. Proceeds from debt issuances are used primarily for capital related purposes and are included in net assets invested in capital assets, net of related debt.

NOTE 11: LONG-TERM LIABILITIES (continued)

In August 2017, the City issued $17,760,000 Electric Light and Power System Revenue Bonds, Series 2017 (Bonds), with interest rates ranging from 4.00% to 5.00%. The Bonds at year end have an unamortized premium totaling $2,083,590. Bond proceeds totaling $19,843,590 will be used for the purpose of paying contractual obligations to be incurred for the purposes of acquiring, purchasing, constructing, improving, renovating, enlarging, and/or equipping property, buildings, structures, facilities, and/or related infrastructure for the electric system.

In November 2016, the City issued $36,780,000 General Obligation Refunding Bonds, Series 2016A (Bonds), with interest rates ranging from 3.125% to 5.00%. LP&L's portion was $3,230,000 with a premium totaling $367,495 at year end and a deferred loss totaling $35,551 at year end. The proceeds were used to advance refund a portion of the LP&L'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 refunded bonds. The bonds refunded $3,525,000 of outstanding debt associated with the Electric Light and Power System. As a result of the refunding, the City achieved a 13.86% savings on refunded bonds.

General Obligation Bonds and Certificates of Obligation are payable from a combination of (i) the proceeds of continuing direct annual ad valorem tax, levied within the limits prescribed by law, on all taxable property within the City, and (ii) a pledge of surplus net revenues of the City's Waterworks System not to exceed $1,000. Electric Light and Power System Revenue Bonds are secured by a first lien on and pledge of the Net Revenues of the City's Electric Light and Power System. The City has not covenanted nor obligated itself to pay the Revenue Bonds from monies raised or to be raised from taxation.

In prior years, the City defeased bonds by placing the proceeds of the new bonds in an irrevocable trust account to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the government's financial statements. At September 30, 2017, the City had $195,960,000 of defeased bonds remain outstanding.

NOTE 12: RISK MANAGEMENT

The Risk Management Fund of the City accounts for liability and workers' compensation claims, and premiums for property/casualty insurance coverage. The Risk Management Fund generates its revenue through charges to other departments, including LP&L, which are based on costs.

NOTE 12: RISK MANAGEMENT (continued)

In April 1999, the City purchased workers' compensation coverage, with no deductible, from the Texas Municipal League Intergovernmental Risk Pool with continuous coverage through September 30, 2009. Effective on 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 terms of inter-local 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 an inter-local agreement, TPS obtains specific excess of loss coverage over and above the self-insured retention stated in the agreement so that members will not have joint and several liabilities beyond their required contribution. Prior to April 1999 the City was self-insured for workers' compensation claims. Any claims outstanding prior to April 1999 continue to be the City's responsibility.

The City's self-insurance liability program is funded on a cash flow basis, which means that the servicing contractor processes, adjusts, and pays claims from a deposit account provided by the City. The City accounts for the liability program by charging premiums to replenish funds based upon losses, administrative fees, premiums, and reserve requirements. In order to control the risks associated with liability claims, the City purchases excess liability coverage with an $18 million annual aggregate limit and is subject to a $500,000 deductible 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 such complex factors 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 expense in the period in which they are incurred.

Additionally, property and boiler coverage is accounted for in the Risk Management Fund. The property insurance policy was purchased from an outside insurance carrier. The policy has a $250,000 deductible per occurrence, and the boiler coverage insurance deductible is up to $500,000, dependent upon the unit. Premiums are charged to funds, including LP&L, based upon estimated premiums for the upcoming year. Departments that sustain property damage in excess of $10,000 are eligible to request assistance from the Risk Management Fund for payment of those damages up to the $250,000 policy deductible.

Other small insurance policies, such as surety bond coverage and miscellaneous floaters, are also accounted for in the Risk Management Fund. LP&L is charged based on premium amounts and administrative charges. Settlements in the current year and preceding two years have not exceeded insurance coverage. The City accounts for all insurance activity in its Internal Service Funds.

NOTE 13: HEALTH INSURANCE

LP&L participates in the City's medical and dental insurance programs. LP&L provides medical and dental insurance for all full-time employees that are accounted for in the City's 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 Agreement. The City purchases excess coverage totaling $350,000 per covered individual annually. Beginning on January 1, 2012, the City discontinued coverage that included an aggregate cap. The insurance vendor, based on medical trends, claims history, and utilization, assists in the determination of the individual deductible. The actuarially determined calculation of the claim liability was $1.69 million at September 30, 2017 for all health insurances including medical, prescription drugs, and dental. The City charges LP&L for health insurance, and LP&L reimburses the City through direct charges.

The City also provides full-time employees basic term life insurance. The life insurance policy has a face value totaling $10,000 per employee.

Full-time employees may elect to purchase medical insurance for eligible dependents at a reduced rate. The fund paid for employee only dental coverage from January 1, 2013 through October 15, 2015, at which time the coverage began being charged to the 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.

NOTE 14: LITIGATION

LP&L is involved in various legal proceedings related to alleged damages and breach of contract cases. The following represents the significant litigation against the City that relates to LP&L during the time period covered by the financial statements.

Texas Tech University v. City of Lubbock

Plaintiff has claimed an overpayment of approximately $3,900,000 million was received by LP&L under a Purchase Power Agreement, but no claim has been filed. The City intends to vigorously defend itself in this action, both as to liability and damages, and will assert any and all applicable legal defenses, file the necessary dispositive motions, and try each case if necessary. An expense and liability was recorded, based on the original offer, in the financials for last FY and after ongoing negotiations between the parties involved, additional expense and liability was recorded this fiscal year.

Jillian Standley v. City of Lubbock & Lubbock Power & Light

The Plaintiff was injured in an auto accident with a City vehicle/employee and is claiming damages as a result of the accident.

NOTE 14: LITIGATION (continued)

Neil McCullough, Individually and on behalf of the Estate of MacKenzie McCullough
A claim has been filed with the City of Lubbock which names the City of Lubbock, Lubbock Power and Light, and the City of Lubbock Water Department. The City of Lubbock Risk Department has advised that the incident in question involved only the governmental function of water supply, and as a result they, in concert with the City Attorney's office, are handling the claim.

NOTE 15: SITE REMEDIATION

The City accounts for pollution remediation obligations in accordance with Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The City contracts with an engineering firm to perform the necessary remediation activities and cost estimates. Pollution remediation obligations are estimates and subject to changes resulting from price increases or reductions, technology, or changes in applicable laws or regulations.

As of September 30, 2017, the City owns one property with environmental issues that meet the criteria for "obligating events" and disclosure under GASB Statement No. 49. The LP&L Cooke Plant (Cooke) environmental issue is a result of leaking underground diesel storage tanks. The Cooke property meets the criteria for environmental issues and has been in existence for several years. It is at the "remediation design and implementation, through and including operation and maintenance, and post remediation monitoring" benchmark discussed in GASB 49. The City has been monitoring and recording this obligation for over ten years. Based on the engineer's estimate this liability increased $75,000.

In 2017, the TCEQ found that the evaporation pond at Cooke did not meet standards and required a supplemental environmental project (SEP). The SEP estimated cost to remediate the evaporation pond with engineering oversight is $162,268. The Cooke property also requires asbestos remediation in the amount of $65,199.

The City contracts with an engineering firm (eHT/Enprotec) to perform the necessary remediation activities. eHT/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 (Cooke Plan) that TCEQ requires the City to follow.

As of September 30, 2017, LP&L recorded a liability related to the underground storage tanks and the evaporation in the amount of $228,106 for pollution remediation and asbestos remediation in the amount of $65,199. The City has an Asbestos Coordinator that worked with eHT/Enprotec to address this issue and this work was completed in early FY 2018.

Lubbock Power and Light
Required Supplementary Information
For the Year Ended September 30, 2017

LP&L's Schedule of Changes in Net Pension Liability and Related Ratios
Texas Municipal Retirement System (TMRS)

	2017	2016	2015
Total pension liability			
Service Cost	$ 2,944,598	$ 2,875,400	$ 2,528,145
Interest (on the Total Pension Liability)	8,107,660	7,972,442	7,639,097
Changes of benefit terms	(21,609)	-	-
Difference between expected and actual experience	-	(424,313)	(1,012,979)
Change of assumptions	-	199,125	-
Benefit payments, including refunds of employee contributions	(5,962,200)	(5,926,334)	(5,266,488)
Net Change in Total Pension Liability	5,068,449	4,696,318	3,887,775
Total Pension Liability - Beginning	119,083,215	114,386,897	110,499,122
Total Pension Liability - Ending (a)	$ 124,151,664	$ 119,083,215	$ 114,386,897
Plan Fiduciary Net Position			
Contributions - Employer	$ 3,112,712	$ 3,207,998	$ 3,061,656
Contributions - Employee	1,213,195	1,209,360	1,127,051
Net Investment Income	6,642,534	145,404	5,346,027
Benefit payments, including refunds of employee	-	-	-
contributions	(5,962,200)	(5,926,334)	(5,266,488)
Administrative Expense	(75,034)	(88,569)	(55,818)
Other	(4,042)	(4,374)	(4,589)
Net Change in Plan Fiduciary Net Position	4,927,165	(1,456,516)	4,207,839
Plan Fiduciary Net Position - Beginning	96,208,585	97,665,101	93,457,262
Plan Fiduciary Net Position - Ending (b)	**$** 101,135,750	**$** 96,208,585	**$** 97,665,101
Net Pension Liability - Ending (a) - (b)	**$** 23,015,914	**$** 22,874,630	**$** 16,721,796
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	81.46%	80.79%	85.38%
Covered Payroll	17,476,056	17,259,301	16,080,396
Net Pension Liability as a Percentage of Covered Payroll	131.70%	132.54%	103.99%

Lubbock Power and Light
Required Supplementary Information
For the Year Ended September 30, 2017

LP&L's Schedule of Contributions
Texas Municipal Retirement System (TMRS)

	2017	2016	2015
Actuarially Determined Contribution	$ 3,187,375	$ 3,090,958	$ 3,063,920
Contributions in relation to the actuarially determined contribution	$ 3,187,375	$ 3,090,958	$ 3,063,920
Contribution deficiency (excess)	-	-	-
Covered payroll	17,754,334	17,054,069	16,406,171
Contributions as a percentage of covered payroll	17.95%	18.12%	18.68%

Notes to Schedule of Contributions

Valuation Date:

Notes:	Actuarially determined contribution rates are calculated as of December 31st 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
Ramaining Amortization Period	30 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 Contributed 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: LP&L implemented GASB Statement No. 68 in FY 2015. Information in this table has been determined as of LP&L's most recent fiscal year end (September 30th) and will ulitimately contain information for ten years.

Lubbock Power and Light
Required Supplementary Information
For the Year Ended September 30, 2017

Other Postemployment Benefit Plan (OPEB)[1]

10/1/07	OPEB	-	81,918,738	81,918,738	-	88,185,412	92.9
10/1/09	OPEB	-	126,167,945	126,167,945	-	95,693,148	131.8
10/1/11	OPEB	-	154,305,935	154,305,935	-	108,102,087	142.7
10/1/13	OPEB	-	155,021,339	155,021,339	-	110,942,802	139.7
10/1/15	OPEB	-	120,877,439	155,021,339	-	122,938,662	98.3

[1]Health/Dental Care Insurance Plan

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Amounts determined regarding the funded status and the annual required contributions of the City's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The detailed discussion of the actuarial assumptions used for the City of Lubbock Retiree Health Care Plan Actuarial Valuation Report as of October 1, 2015 can be obtained from the City.

Acknowledgements

LP&L would like to thank the City of Lubbock Accounting Department for their assistance in preparing the FY 2016-17 LP&L Annual Financial Report. Preparation of this report would not have been possible without the timely cooperation and assistance of the following individuals:

D. Blu Kostelich	Chief Financial Officer
Linda Cuellar, CPA	Director of Accounting
Brack Bullock	Accounting Supervisor
Veronica Valderaz	Accounting Supervisor
Deborah Hansard	Senior Accountant
Amber Aguilar	Senior Accountant
Amber Painter, CPA	Senior Accountant
Meg Beverly	Senior Accountant
Kevin Rule	Debt & Investment Analyst

P O Box 10541 | Lubbock, TX 79408-3541 | (806) 775-2509
www.LPandL.com

APPENDIX D

FORM OF BOND COUNSEL OPINION

_________, 2018

City of Lubbock, Texas
Electric Light and Power System Revenue Bonds, Series 2018

We have acted as bond counsel to the City of Lubbock, Texas (the "City") in connection with the issuance of $93,925,000 aggregate principal amount of bonds designated as "City of Lubbock, Texas Electric Light and Power System Revenue Bonds, Series 2018" (the "Bonds"). The Bonds are authorized by an ordinance adopted by the City Council of the City (the "City Council") on June 28, 2018, and a pricing certificate executed by an authorized officer of the City on July 17, 2018 (together, the "Ordinance"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Ordinance.

In such connection, we have reviewed a transcript of certain certified proceedings pertaining to the issuance of the Bonds, including the Ordinance, the tax certificate of the City dated the date hereof (the "Tax Certificate"), certificates of the City, and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the City. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Ordinance and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Ordinance and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against issuers in the State of Texas. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The transcript of certain 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 the valid and legally binding special obligations of the City, and the Bonds have been authorized and delivered in accordance with law.

2. The Bonds are special obligations of the City and are payable, both as to principal and interest, solely from, and secured by, a first lien on and pledge of the Net Revenues of the System. The City has reserved the right in the Ordinance to issue from time to time Additional Bonds which are equally and ratably secured on parity with the Bonds and the Previously Issued Bonds by a first lien on and pledge of the Net Revenues of the System.

3. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum taxes. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

CITY OF LUBBOCK, TEXAS • ELECTRIC LIGHT AND POWER SYSTEM REVENUE BONDS, SERIES 2018

City of
Lubbock
TEXAS

Mixed Sources
Product group from well managed forests, controlled sources and recycled wood or fiber.

Printed by: ImageMaster, LLC
www.imagemaster.com