



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





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 |



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**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.



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

**Lubbock Power & Light
Management's Discussion and Analysis
September 30, 2017 and 2016**

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*.

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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,

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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

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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

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(\$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

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|------------------------------|------------------------------|------------------------------|
| 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) | <u>(1,522,772)</u> | <u>(1,586,601)</u> | <u>(1,509,618)</u> |
| Total revenues | <u>243,030,716</u> | <u>221,856,363</u> | <u>220,108,784</u> |
| Program expenses (including interest) | <u>215,207,837</u> | <u>199,270,009</u> | <u>200,122,394</u> |
| Contributions | <u>28,879</u> | <u>85,741</u> | <u>44,621</u> |
| Excess before transfers | 27,851,758 | 22,672,095 | 20,031,011 |
| Transfers | <u>(15,886,361)</u> | <u>(14,757,142)</u> | <u>(14,779,263)</u> |
| Change in net position | 11,965,397 | 7,914,953 | 5,251,748 |
| Net position, beginning of year * | <u>176,627,535</u> | <u>168,712,582</u> | <u>163,460,834</u> |
| Net position, end of year | <u><u>\$ 188,592,932</u></u> | <u><u>\$ 176,627,535</u></u> | <u><u>\$ 168,712,582</u></u> |

* 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.

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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 |

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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.

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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) |

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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

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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”.

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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.

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FINANCIAL POSITION

Condensed Statements of Net Position

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|-----------------------|-----------------------|-----------------------|
| 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 | <u>373,435,314</u> | <u>355,795,689</u> | <u>352,895,177</u> |
| Deferred outflows of resources | <u>8,164,326</u> | <u>10,022,950</u> | <u>4,729,928</u> |
| 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 | <u>192,401,161</u> | <u>188,284,944</u> | <u>188,117,192</u> |
| Deferred inflows of resources | <u>605,547</u> | <u>906,160</u> | <u>795,331</u> |
| 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 | <u>\$ 188,592,932</u> | <u>\$ 176,627,535</u> | <u>\$ 168,712,582</u> |

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.

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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.

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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

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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 |

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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.

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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.

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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

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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

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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

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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.

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- **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:

| | <u>CY 2017</u> | <u>CY 2016</u> | <u>CY 2015</u> |
|-------------|-----------------------|-----------------------|-----------------------|
| 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% |
| | <u>100.00%</u> | <u>100.00%</u> | <u>100.00%</u> |

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

| | <u>2017</u> | <u>2016</u> |
|---------------------------------------|-----------------------|-----------------------|
| 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 | <u>102,917,610</u> | <u>97,339,519</u> |
| Noncurrent assets: | | |
| Restricted investments | 46,994,423 | 33,405,967 |
| Goodwill | 796,812 | 1,062,510 |
| Prepaid expenses | 1,611,109 | 1,744,443 |
| | <u>49,402,344</u> | <u>36,212,920</u> |
| 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 | <u>(241,006,745)</u> | <u>(233,826,922)</u> |
| Total capital assets | <u>221,115,360</u> | <u>222,243,250</u> |
| Total noncurrent assets | <u>270,517,704</u> | <u>258,456,170</u> |
| Total assets | <u>\$ 373,435,314</u> | <u>\$ 355,795,689</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred charge on refunding | \$ 1,234,719 | \$ 1,534,143 |
| Deferred outflows from pensions | <u>6,929,607</u> | <u>8,488,807</u> |
| Total deferred outflows of resources | <u>\$ 8,164,326</u> | <u>\$ 10,022,950</u> |

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

| | <u>2017</u> | <u>2016</u> |
|--------------------------------------|-----------------------|-----------------------|
| 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 | <u>46,561,417</u> | <u>44,674,388</u> |
| 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 | <u>145,839,744</u> | <u>143,610,556</u> |
| Total liabilities | <u>\$ 192,401,161</u> | <u>\$ 188,284,944</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred inflows from pensions | <u>\$ 605,547</u> | <u>\$ 906,160</u> |
| Total deferred inflows of resources | <u>\$ 605,547</u> | <u>\$ 906,160</u> |
| NET POSITION | | |
| Net investment in capital assets | 129,981,725 | 118,531,721 |
| Restricted for: | | |
| Debt service | 10,354,109 | 10,392,293 |
| Unrestricted | <u>48,257,098</u> | <u>47,703,521</u> |
| Total net position | <u>\$ 188,592,932</u> | <u>\$ 176,627,535</u> |

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

| | <u>2017</u> | <u>2016</u> |
|---|------------------------------|------------------------------|
| 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 | <u>212,493,938</u> | <u>195,176,093</u> |
| Operating income | <u>31,434,213</u> | <u>27,775,521</u> |
| 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) | <u>(3,611,334)</u> | <u>(5,189,167)</u> |
| Income before contributions and transfers | <u>27,822,879</u> | <u>22,586,354</u> |
| Capital contributions | 28,879 | 85,741 |
| Transfers, net | <u>(15,886,361)</u> | <u>(14,757,142)</u> |
| 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 | <u>176,627,535</u> | <u>168,712,582</u> |
| Net position - ending | <u><u>\$ 188,592,932</u></u> | <u><u>\$ 176,627,535</u></u> |

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

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| 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 | <u>48,231,774</u> | <u>44,633,264</u> |
| 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 | <u>(15,886,361)</u> | <u>(14,757,142)</u> |
| 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 | <u>(16,678,437)</u> | <u>(31,544,061)</u> |
| 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 | <u>(20,363,233)</u> | <u>2,872,425</u> |
| 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 | <u>4,148,731</u> | <u>8,844,988</u> |
| 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 | <u>48,231,774</u> | <u>44,633,264</u> |

See accompanying Notes to Basic Financial Statements

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2017 and 2016

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.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2017 and 2016

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.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2017 and 2016

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.

Equity in Cash and Investments

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.

Cash Equivalents

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.

Investments

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.

Accounts Receivable

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.

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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.

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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.

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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 | <u>3,913,221</u> |
| Total | <u>\$ 4,128,021</u> |

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NOTE 2: DEPOSITS AND INVESTMENTS (continued)

At September 30, 2017 and 2016, LP&L had the following investments and maturities:

| Type | 30-Sep-17 | | | 30-Sep-16 | | |
|--|----------------|---------------------|---------------|---------------|---------------------|---------------|
| | Fair Value | Maturities in Years | | Fair Value | Maturities in Years | |
| | | Less Than 1 | 1-5 | | 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

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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 ladder 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

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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

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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 | <u>\$ 25,999,946</u> | <u>\$ -</u> | <u>\$ 25,999,946</u> | <u>\$ -</u> |
| 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 | <u>\$ 82,140,578</u> | | | |
| 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 | <u>\$ 1,749,454</u> | | | |
| Total Investments | <u>\$ 109,889,978</u> | | | |

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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 | <u>\$ 22,528,375</u> | <u>\$ -</u> | <u>\$ 22,528,375</u> | <u>\$ -</u> |
| 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 | <u>\$ 61,779,883</u> | | | |
| Investments measured at amortized cost | | | | |
| TexPool | \$ 4,464,457 | | | |
| Money Markets | 141,028 | | | |
| Total investments at amortized cost | <u>\$ 4,605,485</u> | | | |
| Total Investments | <u>\$ 88,913,743</u> | | | |

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

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

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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.

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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 |

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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 |

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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.

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NOTE 8: RETIREMENT PLAN (continued)

The adopted plan provisions for plan years 2016 and 2015 were as follows:

| | <u>Plan Year</u> |
|---|------------------|
| 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 |

Lubbock Power and Light
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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:

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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 |

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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:

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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:

| <u>Year ending September 30:</u> | |
|---|---------------------|
| 2018 | \$ 1,310,394 |
| 2019 | 1,385,989 |
| 2020 | 1,312,556 |
| 2021 | (3,689) |
| Total | \$ 4,005,250 |

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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 | <u>(337,440)</u> |
| Annual OPEB Cost | 1,342,458 |
| Total annual employer contribution (pay-as-you-go) | <u>(707,608)</u> |
| Increase in net OPEB obligation | 634,850 |
| Net OPEB obligation – beginning of year | <u>8,738,911</u> |
| Net OPEB obligation – end of year | <u>\$9,373,761</u> |

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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 |

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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 | | | <u>\$85,173,383</u> | <u>\$32,994,725</u> | <u>\$37,812,202</u> |

* Balance outstanding excludes \$3,386,771 of net bond premiums and discounts.

** Balance outstanding excludes \$3,715,405 of net bond premiums and discounts.

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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 | | | <u>\$ 143,270,000</u> | <u>\$ 84,680,000</u> | <u>\$ 77,700,000</u> |

* 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.

Lubbock Power and Light
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NOTE 11: LONG-TERM LIABILITIES (continued)

The annual requirements to amortize LP&L's outstanding debt are as follows:

| Fiscal Year | General Obligation Bonds | | Revenue Bonds | |
|----------------|--------------------------|--------------|---------------|---------------|
| | 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.

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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.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2017 and 2016

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.

**Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
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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.

Lubbock Power and Light
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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)

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|------------------------------|------------------------------|------------------------------|
| 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 | <u>(5,962,200)</u> | <u>(5,926,334)</u> | <u>(5,266,488)</u> |
| Net Change in Total Pension Liability | 5,068,449 | 4,696,318 | 3,887,775 |
| Total Pension Liability - Beginning | <u>119,083,215</u> | <u>114,386,897</u> | <u>110,499,122</u> |
| Total Pension Liability - Ending (a) | <u><u>\$ 124,151,664</u></u> | <u><u>\$ 119,083,215</u></u> | <u><u>\$ 114,386,897</u></u> |
| 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 | <u>(4,042)</u> | <u>(4,374)</u> | <u>(4,589)</u> |
| Net Change in Plan Fiduciary Net Position | 4,927,165 | (1,456,516) | 4,207,839 |
| Plan Fiduciary Net Position - Beginning | <u>96,208,585</u> | <u>97,665,101</u> | <u>93,457,262</u> |
| Plan Fiduciary Net Position - Ending (b) | <u><u>\$ 101,135,750</u></u> | <u><u>\$ 96,208,585</u></u> | <u><u>\$ 97,665,101</u></u> |
| 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)**

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|---------------------|
| Actuarially Determined Contribution | \$ 3,187,375 | \$ 3,090,958 | \$ 3,063,920 |
| Contributions in relation to the actuarially determined contribution | <u>\$ 3,187,375</u> | <u>\$ 3,090,958</u> | <u>\$ 3,063,920</u> |
| Contribution deficiency (excess) | - | - | - |
| Covered payroll | 17,754,334 | 17,054,069 | 16,406,171 |
| Contributions as a percentage of covered payroll | <u>17.95%</u> | <u>18.12%</u> | <u>18.68%</u> |

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 |
| Remaining 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 ultimately 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 |

¹Health/Dental Care Insurance Plan

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Amounts determined regarding the funded status and the annual required contributions of the City's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The detailed discussion of the actuarial assumptions used for the 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:

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Meg Beverly
Kevin Rule

Chief Financial Officer
Director of Accounting
Accounting Supervisor
Accounting Supervisor
Senior Accountant
Senior Accountant
Senior Accountant
Senior Accountant
Debt & Investment Analyst





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P O Box 10541 | Lubbock, TX 79408-3541 | (806) 775-2509
www.LPandL.com