MOODY'S RATINGS

Rating Action: Moody's Ratings affirms Lubbock, TX's Aa2 issuer and GO ratings; upgrades electric revenue rating to Aa3

29 Jul 2024

New York, July 29, 2024 -- Moody's Ratings (Moody's) has affirmed the City of Lubbock, TX's Aa2 issuer and general obligation limited tax (GOLT) ratings. We have upgraded, to Aa3 from A1, the city's electric revenue rating. The city has approximately $1.4 billion in debt outstanding. The outlook is stable.

RATINGS RATIONALE

The Aa2 issuer rating reflects Lubbock's large and growing tax base that is driving increased operating revenue. The city materially benefits from the stabilizing institutional presence of Texas Tech University (Aa1 stable) and its roughly 41,000 students, which represent about 15% of the city's population and largely offsets the negative drag on resident income and full value per capita. Operating reserves are likely to remain in line with Aa2 peers, despite inflationary impacts to the city's budget that will result in a modest deficit in fiscal 2024. The city anticipates utilizing about $44 million of its outstanding authorization for street projects in fiscal 2025, but the long-term liabilities ratio will remain below 250% of revenue.

The Aa2 GOLT rating is the same as the city's issuer rating, reflecting the city's ample taxing headroom (648%), which offsets the lack of a full faith and credit pledge and inability to override the statutory cap.

The upgrade to Aa3 from A1 of the city's electric revenue rating largely reflects the de-risking of Lubbock Power & Light (LP&L) following the successful transition from a generation system to distribution only and entrance into the Electric Reliability Council of Texas, Inc. (ERCOT; Aa3 stable) retail market, a key governance consideration of the rating. The enterprise now derives its revenue from distribution service charges to retail electric providers (REP) who absorb the billing collection risk. Management anticipates using liquidity in excess of its 90 day policy to defease debt and cash fund capital projects as opportunities arise and will rebuild liquidity after the ERCOT hold harmless payment ends in Dec 2026. Coverage in fiscal 2023 was adequate at about

1.35 times, but a descending debt service schedule following MADS in fiscal 2025 should lead to improved coverages. Bondholder protections are adequate with a sum-sufficient rate covenant and cash funded debt service reserve equal to the average annual debt service requirement.

RATING OUTLOOK

The stable outlook reflects expectations that ongoing economic growth and utility rate hikes are likely to boost operating revenue, keep the city's reserves steady, and maintain a moderate leverage ratio. Combined with prudent budgeting, these elements lay the groundwork for a consistently stable financial status into the future.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Trend of surplus operations leading to operating reserve ratio above 40% (issuer/GOLT)

- Maintenance of long-term liabilities ratio below 200% (issuer/GOLT)

- Trend of coverage exceeding 2 times debt service (electric enterprise)

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Erosion of operating reserve ratio below 25% (issuer/GOLT)

- Maintenance of long-term liabilities ratio above 350% (issuer/GOLT)

- Debt coverage falling below 1.2 times debt service (electric enterprise)

- Days cash on hand falling below 90 day reserve policy (electric enterprise)

LEGAL SECURITY

The city's general obligation bonds and certificates of participation are direct obligations of the city, payable from the proceeds of an annual ad valorem tax, levied within the limits prescribed by law, against all taxable property within the city. The certificates are also payable from a pledge of surplus net revenue of the city's waterworks system, not to exceed $1,000.

The city's electric system revenue bonds are payable from a first lien pledge on the net revenue of the system.

PROFILE

The City of Lubbock is located in northwest Texas (Aaa stable), is the county seat of Lubbock County, and serves are the economic, educational, and health-care hub of a multicounty region between the Permian Basin and Texas panhandle. The city is home to more than 265,000 residents.

METHODOLOGY

The principal methodology used in the issuer and general obligation ratings was US Cities and Counties published in July 2024 and available at https://ratings.moodys.com/rmc-documents/425429 . The principal methodology used in the revenue ratings was US Municipal Utility Revenue Debt published in March 2024 and available at https://ratings.moodys.com/rmc-documents/416489 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

For any affected securities or rated entities receiving direct credit support/credit substitution from another entity or entities subject to a credit rating action (the supporting entity), and whose ratings may change as a result of a credit rating action as to the supporting entity, the associated regulatory disclosures will relate to the supporting entity. Exceptions to this approach may be applicable in certain jurisdictions.

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Moody's does not always publish a separate Credit Rating Announcement for each Credit Rating assigned in the Anticipated Ratings Process or Subsequent Ratings Process.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social

and governance (ESG) risks in our credit analysis can be found at
https://ratings.moodys.com/documents/PBC_1355824 .

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