

CREDIT OPINION

23 March 2016

New Issue

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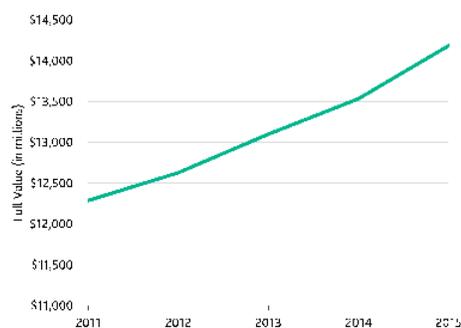
New Issue - Moody's assigns Aa2 to Lubbock, TX's Ser. 2016 GOLTs; outlook is stable

Summary Rating Rationale

Moody's Investors Service has assigned an Aa2 to the City of Lubbock, TX's \$25.97 million General Obligation Refunding Bonds, Series 2016 and \$97.1 million Tax and Waterworks System Surplus Revenue Certificates of Obligation, Series 2016. Concurrently, we have affirmed the Aa2 rating on the city's outstanding general obligation limited tax bonds. The outlook remains stable.

The Aa2 reflects the city's large tax base that benefits from the additional stability and institutional presence of Texas Tech University ([Texas Tech University System](#); Aa1 stable), below average wealth levels, strong management, as well as healthy operating reserves and liquidity. The Aa2 also reflects the city's high, yet manageable debt burden given significant utility system support of general obligation debt, as well as above average fixed costs and pension liabilities.

Exhibit 1
Institutional Presence Yields Steady Tax Base Growth



Source: Lubbock County Appraisal District, TX

Credit Strengths

- » Large tax base, institutional stability from Texas Tech University
- » Growing population
- » Stable financial position, improving reserves and liquidity
- » Strong planning and management

Credit Challenges

- » Above average debt burden and net pension liabilities
- » Fixed costs are a large component of operating budget
- » Plans for additional borrowing in the near term
- » Below average wealth levels
- » Exposure to economically sensitive sales tax revenues

Rating Outlook

The stable outlook reflects our expectation the city's large tax base will continue to grow in the near term, as well as continue benefiting from the institutional presence of Texas Tech University. The stable outlook further reflects our view the city's financial position will remain healthy and that utility rates will be adjusted to ensure continued utility system support of GOLT debt.

Factors that Could Lead to an Upgrade

- » Trend of operating surpluses yielding continued improvement of operating reserves
- » Material moderation of debt burden, pension liabilities
- » Substantial tax base growth coupled with significantly improved wealth levels

Factors that Could Lead to a Downgrade

- » Increased debt burden, pension liabilities
- » Lack of utility system support of GOLT debt
- » Substantial erosion of operating reserves or liquidity
- » Significant tax base decline or weakened socioeconomic profile

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Key Indicators

Exhibit 2

Lubbock (City of) TX	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 12,288,361	\$ 12,629,609	\$ 13,100,207	\$ 13,535,673	\$ 14,183,511
Full Value Per Capita	\$ 52,981	\$ 54,053	\$ 55,424	\$ 56,704	\$ 58,774
Median Family Income (% of US Median)	85.8%	86.3%	86.3%	86.3%	86.3%
Finances					
Operating Revenue (\$000)	\$ 155,890	\$ 170,930	\$ 181,221	\$ 180,162	\$ 190,573
Fund Balance as a % of Revenues	14.8%	17.2%	19.5%	17.9%	21.6%
Cash Balance as a % of Revenues	11.1%	12.6%	15.0%	15.2%	18.2%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 316,348	\$ 327,061	\$ 326,558	\$ 337,396	\$ 346,994
Net Direct Debt / Operating Revenues (x)	2.0x	1.9x	1.8x	5.6x	5.4x
Net Direct Debt / Full Value (%)	2.6%	2.6%	2.5%	2.5%	2.5%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	2.1x	2.3x	2.4x	2.4x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	2.8%	3.1%	3.2%	3.2%

Source: Moody's Investors Service

Recent Developments

Recent developments are incorporated in the Detailed Rating Considerations.

Detailed Rating Considerations

Economy and Tax Base: Large Tax Base, Institutional Presence from Texas Tech University

We expect the institutional presence from Texas Tech University will support continued growth of the city's large \$15 billion tax base in the near term, as well as additional stability to the regional economy. Lubbock is the county seat of [Lubbock County](#) (Aa1) and a major economic center for the south plains of west Texas. Ongoing residential and commercial development to accommodate a growing population have increased the city's full values an average 4.1% annually over the last five years. In 2015, building permit values for new construction totaled \$575 million compared to \$240 million in 2011. The city's population reached 233,162 residents in 2013, representing a 16.8% increase from 2000. Officials anticipate full values to increase about 3% annually for the next few years. The [Monsanto Company](#) (A3 negative) is constructing a new 500,000 square-foot facility in north Lubbock that will serve as the firm's US cotton seed hub. Construction of several new apartment buildings and student housing complexes continues east of the Texas Tech University campus and will be complete in 2016.

Top property taxpayers account for a modest 3.3% of 2016 full values and consist of retail centers, a grocery distribution center and utilities. At 3% as of December 2015, the city's unemployment rate continues to remain below the state (4.2%) and national (4.8%) rates. Resident wealth levels are below average and reflect the large student population with median family income equal to 86.5% of the US.

Financial Operations and Reserves: Stable Financial Position, Healthy Reserves and Liquidity to Continue in Near Term

We expect the city's financial position will remain healthy in the near term given prudent management, formal financial policies and adequate reserve levels. Despite growing operational and capital needs, the city's strong fiscal and budgetary management led to surplus financial operations which strengthened General Fund reserves in four of the last five fiscal years. This is particularly important for Lubbock given the city's primary source of operating revenues are economically sensitive sale taxes (38.8% of 2015 General Fund revenues).

The city closed fiscal 2015 with a General Fund surplus of \$4 million (excluding proceeds from capital leases) and an available General Fund balance of \$39.1 million, or a healthy 23.7% of General Fund revenues. The surplus reflects a variety of favorable budget variances, including a \$2 million variance in sales tax revenues and a \$3 million variance in public safety and health services expenditures. After amendments for street and road improvements, the fiscal 2016 budget reflects a \$6.2 million reduction of General

Fund reserves. If realized, the city's total General Fund balance would decline to \$32.9 million at year-end 2016, or a smaller 20% of 2015 revenues which is in-line with management's formal policy to maintain an unassigned General Fund balance equal to 20% of annual operating revenues (excluding transfers in). A sustained trend of surplus financial operations leading to strengthened reserves could lead to upward pressure on the rating.

LIQUIDITY

We expect the city's liquidity position will remain stable in the near term. At year-end 2015, the General Fund held \$32.6 million in net cash and investments or a healthy 19.8% of revenues. Net cash and investments in the city's Operating Fund (consisting of the General Fund and Debt Service Fund) totaled \$34.7 million, or 21.6% of Operating Fund revenues.

Debt and Pensions: Manageable Debt Burden Given Significant Utility System Support of GOLT Debt; High Fixed Costs; Elevated Pension Liabilities

The city's debt profile will remain above average given plans for additional near term borrowing, but should remain manageable from continued utility-system support of annual debt service. Inclusive of the current offerings, the city's direct debt burden of 7.1% (10.7% overall) is well above average for the rating category, expressed as a percentage of fiscal 2016 full values. However, several enterprise systems (water, wastewater, electric, solid waste and stormwater) significantly support annual debt service on the city's GOLT debt, resulting in a manageable adjusted net direct debt burden of 2.4% (6.0% overall). Although management does not anticipate issuing the \$3.7 million of authorized GOLT bonds in the near term, they do anticipate the continued issuance of utility-supported certificates of obligation as needed.

DEBT STRUCTURE

The city's outstanding debt consists of fixed-rate GOLT bonds and certificates of obligation, as well as capital leases which amortize over the long term (final maturity is fiscal 2036). Amortization is below average for the rating category with 63.8% of principal retired in 10 years.

DEBT-RELATED DERIVATIVES

The city is not a party to any derivative agreements.

PENSIONS AND OPEB

Moody's three-year average adjusted net pension liability (ANPL) through fiscal 2015 is \$489 million, or 4.4% of 2016 full value and an above average 2.4 times 2015 Operating Fund revenues. The ANPL is based upon our allocation of the city's reported unfunded liabilities of the Texas Municipal Retirement System, a multi-employer, defined benefit retirement plan sponsored by the [State of Texas](#) (Aaa stable) and the Lubbock Fire Pension Fund (LFPF), a single-employer, defined benefit plan that provides benefits to retired firefighters. In addition, the ANPL reflects enterprise system support of pension contributions for the water, wastewater, electric, solid waste and stormwater utilities.

Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the city's reported liability information, but to improve comparability with other rated entities. The city's pension and OPEB contributions (net of enterprise system contributions) totaled \$22.4 million in fiscal 2015, or a considerable 12% of Operating Fund expenditures. Including debt service expenditures, the city's total fixed costs (pensions and OPEB contributions plus debt service expenditures reported in the General Fund and Debt Service Fund) account for a substantial 32.3% of Operating Fund expenditures. Given the city's above average debt profile, the proven ability to manage its fixed costs and pension liabilities will be a focal point of future reviews. A considerable increase in fixed costs or ANPL could lead to downward pressure on the rating.

Management and Governance

Texas cities have an institutional framework score of "Aa," or strong. Cities rely on stable property taxes for 30% -40% of their operating revenues, while 25%-35% comes from economically sensitive sales taxes, resulting in moderate predictability overall. Cities maintain moderate flexibility under the state-mandated cap (\$25 per \$1,000 of AV, with no more than \$15 for debt) to raise property taxes as most cities are well below the cap. Expenditures primarily consist of personnel costs, which are highly predictable. Cities have high flexibility to reduce expenditures given no union presence.

The City of Lubbock is well managed, supported by healthy reserve levels and formal financial policies. The city typically outperforms its budget due to management's conservative budgeting practices. The city has a formal policy to maintain reserves equal to 20% of

unassigned General Fund revenues, excluding transfers in. In addition, franchise fees and payment-in-lieu-of-taxes (PILOTs) from the city's various utility systems are codified and governed by ordinance.

Legal Security

The bonds are secured by an ad valorem tax levied against all property within the city within the limits prescribed by law. The certificates are additionally secured by a limited pledge on the surplus net revenues of the city's water and wastewater system.

Use of Proceeds

Proceeds from the current offering will refund certain maturities of the city's outstanding GOLT bonds for debt service savings. The certificates will fund various capital improvements throughout the city, including construction of a new municipal building and water reclamation plant.

Obligor Profile

The City of Lubbock is the county seat of Lubbock County and located in the south plains of west Texas. In 2013, the city's population included 233,162 residents.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Ratings Methodologies page on www.moody.com for a copy of this methodology.

Ratings

Exhibit 3

LUBBOCK (CITY OF) TX

Issue	Rating
Tax and Waterworks System Surplus Revenue Certificates of Obligation, Series 2016	Aa2
Rating Type	Underlying LT
Sale Amount	\$97,120,000
Expected Sale Date	04/05/2016
Rating Description	General Obligation Limited Tax
General Obligation Refunding Bonds, Series 2016	Aa2
Rating Type	Underlying LT
Sale Amount	\$25,965,000
Expected Sale Date	04/05/2016
Rating Description	General Obligation Limited Tax

Source: Moody's Investors Service

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REPORT NUMBER 1019109

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