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Summary:

Lubbock, Texas; General Obligation

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Summary:

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Credit Profile		
US$97.12 mil tax and wtrwks sys surplus rev certs of oblig ser 2016 dtd 04/15/2016 due 02/15/2036		
Long Term Rating	AA+/Stable	New
US$25.965 mil GO rfdg bnds ser 2016 dtd 04/15/2016 due 02/15/2034		
Long Term Rating	AA+/Stable	New
Lubbock GO		
Long Term Rating	AA+/Stable	Affirmed
Lubbock GO		
Long Term Rating	AA+/Stable	Affirmed
Lubbock GO		
Long Term Rating	AA+/Stable	Affirmed
Lubbock GO		
Long Term Rating	AA+/Stable	Affirmed
Lubbock		
Long Term Rating	AA+/Stable	Affirmed
Lubbock GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' rating and stable outlook to the City of Lubbock, Texas' series 2016 general obligation (GO) refunding bonds and series 2016 tax and waterworks system surplus revenue certificates of obligation. At the same time, Standard & Poor's affirmed its 'AA+' rating on Lubbock's GO bonds outstanding. The outlook is stable.

The series 2016 GO refunding bonds constitute direct obligations of the city, payable from the levy and collection of a continuing ad valorem tax, within the limits prescribed by law. The bonds are secured by the city's levy of an annual ad valorem tax on all taxable property in the Lubbock. The maximum allowable rate in Texas is $2.50 per $100 of assessed value (AV) for all purposes, with the portion dedicated to debt service limited to $1.50. The city's levy is well below the maximum, at 53.8 cents, 12.2 cents of which is dedicated to debt service. We understand that proceeds from the sale of the bonds will be used to refund a portion of the city's obligations outstanding for interest rate savings.

The series 2016 certificates constitute direct obligations of the city payable from a combination of the proceeds of a direct annual ad valorem tax, levied within the limits prescribed by law, against all taxable property within the city and a pledge of surplus net revenues of the city's waterworks system not to exceed $1,000. We rate the certificates based

on the strength of the city's GO pledge.

The rating reflects our assessment of the following factors for the city:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA) and a local stabilizing institutional influence;
- Very strong management, with "strong" financial policies and practices under our financial management assessment methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 25% of operating expenditures;
- Very strong liquidity, with total government available cash at 114.2% of total governmental fund expenditures and 6.1x governmental debt service, and access to external liquidity we consider exceptional;
- Very weak debt and contingent liability position, with debt service carrying charges at 18.8% of expenditures and net direct debt that is 150.6% of total governmental fund revenue; and
- Strong institutional framework score.

Strong economy

We consider Lubbock's economy strong. The city, with an estimated population of 241,322, is located in Lubbock County in the Lubbock MSA, which we consider to be broad and diverse. The city also benefits, in our view, from a stabilizing institutional influence. The city has a projected per capita effective buying income of 85.1% of the national level and per capita market value of $62,228. Overall, the city's market value grew by 5.9% over the past year to $15.0 billion in 2016. The county unemployment rate was 3.9% in 2014.

The city is located in West Texas, and the nearest major cities are Amarillo (about 119 miles north) and Midland (about 118 miles south). We consider the local economy to be strong, with a major education and health care sector presence. Texas Tech University, with a student enrollment of more than 35,000, is located within the city and, in our view, provides a stabilizing presence for the city. Texas Tech continues to be the largest employer in the city, with about 9,000 employees (including the Health Sciences Center). The Lubbock MSA serves as a regional trade and service center for a 25-county region that is home to about 600,000 people. City officials report that construction activity continues to grow significantly and that there are no concerns with any of the city's primary taxpayers or employers.

Very strong management

We view the city's management as very strong, with "strong" financial policies and practices under our financial management assessment (FMA) methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Management prepares the annual budget using conservative revenue and expenditure assumptions based on both trend analysis and economic modeling and input from external expert consultants. Regular monitoring and reporting of the city's budgetary performance and investment portfolio is provided to the city council and the city's ad hoc audit committee. The city maintains reserve policies that establish high performance standards, including maintaining at least 20% of operating revenues in the unreserved general fund balance. The city prepares long-term financial forecasts for its operating fund as well as its enterprise funds. The comprehensive long-term capital planning identifies

funding sources for projects and equipment outlays. The debt policy is included in the annual budget document; the policy includes guidance on the appropriate funding source for different project types as well as targets for the average life and maximum maturity of debt, but does not address key issues such as maximum debt levels or minimum savings for refundings. While the policy does not address the appropriate balance of variable- and fixed-rate debt, the city has not historically issued variable-rate debt.

Strong budgetary performance

Lubbock's budgetary performance is strong in our opinion. The city had operating surpluses of 5.5% of expenditures in the general fund and of 11.2% across all governmental funds in fiscal 2015. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2015 results in the near term.

In our calculations, we have adjusted the city's revenues and expenditures to treat recurring transfers as either revenues or expenditures, and to subtract significant one-time expenditures such as the spending-down of previously deposited bond or capital lease proceeds. The general fund surplus in fiscal 2015 is primarily attributed to sales tax revenue trending $1.9 million over budget, and $3.3 million over the prior year, and also an increase in franchise fees following a rate increase. Property tax collections and sales tax revenues account for the majority of the city's operating revenues. Property tax collections remain very healthy, averaging over 98%, and sales tax revenues have continued to increase steadily, growing by a cumulative 27% in 2015 from 2011.

For fiscal 2016, the city adopted a balanced general fund budget with the use of about $2.7 million of net assets for one-time capital projects. Officials have indicated to us that current year actuals are trending to the budget. Therefore, we do not believe Lubbock's general fund will experience another net surplus in excess of 5%, but we believe it is likely that the city's general fund and total governmental funds budgetary performance will be at least balanced in fiscal 2016. Planning for fiscal 2017 is currently underway, and while the city is still in the budget process for the future year, we believe it's likely the 2017 budget will be similar to that of 2016-- balanced operations with net asset utilization in excess of its formal reserve policy for one-time projects.

Very strong budgetary flexibility

Lubbock's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 25% of operating expenditures, or $39.1 million.

Although the city's budget calls for the utilization of about $2.7 million of the city's available reserves in fiscal 2016, we do not believe Lubbock's budgetary flexibility will weaken as a result. The city has historically maintained reserves in excess of 15% of its operating expenditures, and therefore we project the city's budgetary flexibility will remain very strong over the next two years.

Very strong liquidity

In our opinion, Lubbock's liquidity is very strong, with total government available cash at 114.2% of total governmental fund expenditures and 6.1x governmental debt service in 2015. In our view, the city has exceptional access to external liquidity if necessary.

The city's exceptional access to external liquidity is demonstrated through its access to the market over the past 15 years. Lubbock frequently issues GO- and revenue-backed bonds, and has also has engaged in tax increment financing.

It has historically had what we consider very strong cash balances and, given management's demonstrated ability to maintain balanced operations, we do not believe its cash position will worsen. Currently, all of the city's investments comply with Texas statutes and the city's internal investment policy. At year-end fiscal 2015, the majority of the city's investments were in state investment pools, none of which we consider aggressive.

Very weak debt and contingent liability profile

In our view, Lubbock's debt and contingent liability profile is very weak. Total governmental fund debt service is 18.8% of total governmental fund expenditures, and net direct debt is 150.6% of total governmental fund revenue.

The city's net direct debt burden has been adjusted to account for self-supporting debt from various city-owned enterprises. Lubbock will continue to issue debt annually in conjunction with its capital improvement plan, and could issue upwards of $180 million over the next two years; however, we believe the majority of future year debt issuances would be self-supported.

Lubbock's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 13.9% of total governmental fund expenditures in 2015. Of that amount, 11.4% represented required contributions to pension obligations, and 2.5% represented OPEB payments. The city made its full annual required pension contribution in 2015.

The city participates in the Texas Municipal Retirement System (TMRS), which is administered by the State of Texas. The city's required pension contribution is actuarially determined contribution, which is calculated at the state level, based on an actuary study. Using updated reporting standards in accordance with Governmental Accounting Standards Board (GASB) Statement No. 67, the city's net pension liability was measured as of Dec. 31, 2014, and was $91.8 million. The TMRS plan maintained a funded level of 85.4%, using the plan's fiduciary net position as a percent of the total pension liability. In addition, the city separately provides pension benefits to members of its fire department through contributions to the Lubbock Fire Pension Fund (LFPF), a single-employer, defined-benefit plan. The city's required pension contribution is determined as a percent of pay by each firefighter and a percentage of payroll by the city. Using updated GASB statements, the LFPF's net pension liability was measured as of Dec. 31, 2014, and was $64 million. The LFPF plan maintained a funded level of 74%, using the plan's fiduciary net position as a percent of the total pension liability. For additional details on GASB 67 and 68, see our report "Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria," published Sept. 2, 2015, on RatingsDirect. The city also provides health and dental benefits to retirees, which it pays for on a pay-as-you-go basis. Although we recognize that pension costs are high relative to the city's total governmental expenditures, we do not view the city as having a large pension obligation at this time given that the city has historically contributed 100% of its annual pension contribution and the TMRS plan is over 80% funded.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Outlook

The stable outlook reflects our opinion that we will not change the rating over the two-year outlook horizon. The

outlook further reflects our view of the city's very strong reserves and management's ability to maintain balanced operations. In addition, the outlook reflects our opinion that Lubbock will continue to remain what we consider to be a broad and diverse MSA, and that it will continue to experience steady growth.

Upside scenario

A higher rating would likely follow an expansion of the economic base, all else being equal, which enables Lubbock's wealth and income levels to be comparable to those of similarly rated higher peers and a significant improvement of the city's debt profile.

Downside scenario

We would likely lower the rating if reserves deteriorate, triggered by a weakening in the city's budgetary performance.

Related Criteria And Research

Related Criteria

- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

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